REFERENCE COPY

ONTARIO ECONOMIC REVIEW

MAY 1965
VOL. 3
NO. 1

HA
747
0656
1965
VOL.3
NO.1

DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Hon. Stanley J. Randall, Minister

Stuart W. Clarkson, Deputy Minister

81/757

THE ONTARIO ECONOMY

High employment levels continued to reflect the general prosperity in Ontario. In April, the unemployment rate was 3.1%. Manufacturing levels are high with both motor vehicle production and steel output exceeding that of April, 1964.

Prices in the consumer sector have held relatively firm whereas in the wholesale sector a 0.9% increase was recorded in April. Moreover, preliminary figures for May indicate that wholesale price increases from April are in the order of 0.5%.

PRODUCTION

The seasonally adjusted Canadian Industrial Production Index was 223.8 in February, based on 1949 = 100. Though this was virtually the same as in January, there were several notable changes among the component indices.

The mining index dropped 1.7% as a result of declines in the production of gold, copper and nickel ores, and fuels including coal and petroleum. Increases took place in the production of iron ore, asbestos and natural gas.

Both the non-durable and the durable manufacturing indices remained close to those of January. Among the non-durables, increases in rubber products and textiles were offset by decreases in food and beverages, and petroleum and coal products. The more notable durable goods increases were recorded in the production of motor vehicles and parts, products of smelting and refining, and refrigerators and appliances.

Canadian automobile production in April was 71,113 units bringing the total for the first four months to 256,715 units. Compared to 1964, these levels were increases of 12% and 7% respectively. Truck production displayed higher gains with increases of 21% and 16% in a similar comparison.

Reflecting the strong demand from the manufacturing and construction sectors, steel production continued at capacity rates during April. In that month, steel ingot production was 779 thousand tons, an increase of 4% over April, 1964. Though this level is not quite that of January or March, it exceeds production during any month of 1964 or previous years. Pig iron production in April was 537 thousand tons. This was a slight decrease over April, 1964.

CONSTRUCTION

In Ontario, starts on new dwelling units numbered 3,552 in April. This is slightly lower than in April, 1964 on account of the relatively large increase in March. As a result, starts for the first four months are a modest 2% ahead of the comparable period last year.

In Metro Toronto, dwelling unit starts showed an increase of 14% from the first four months of 1964. On the other hand, starts in other Ontario centres declined 2%. As a result, the Metro Toronto proportion of total Ontario starts rose from 35% in the January to April period of 1964 to 39% this year.

In the Metropolitan centres in Ontario, the trend towards living in apartments and row houses was further demonstrated by recent statistics. In Toronto, apartment and row-house dwelling unit starts numbered 2,915 in the first four months of 1965, an increase of 28% from the same period last year. In contrast the number of starts for single-detached, semi-detached and duplex houses was 13% lower in a comparable comparison. In the surrounding towns outside Metro Toronto but within the Metro census area, the opposite was observed. Apartment and row housing starts showed a decrease of 52% compared to a 36% rise in housing starts.

Row and apartment starts and housing starts in five other metro centres displayed the following changes over the same period: Hamilton –67% and –13%, Kitchener –5% and –1%, London + 96% and –8%, Ottawa-Hull + 11% and –49% and Windsor over 100% and –8%.

Ontario business, industrial and engineering contracts awarded in April were valued at $124.6 million on a seasonally adjusted basis. This was an increase of over $10 million from March. For the first four months, the seasonally adjusted total was $448.8 million, an increase of over 23% compared to last year.

LARGE CONSTRUCTION AWARDS PLACED RECENTLY IN ONTARIO

Location	*$ million*	*Description*
Brantford	1.5	Tobacco plant
Fort William	2.5	High school
Kingston	1.9	University building
Kitchener	1.1	Apartment building
Ingersoll	2.0	Industrial plant
Niagara Falls	1.6	Hospital addition
North Bay	3.5	Hospital
North York Twp.	16.5	Apartment buildings
Sarnia	1.5	Polymer Corp. research addition
Scarborough Twp.	3.9	Apartment buildings
Toronto	7.0	Apartment buildings
Toronto	4.0	Office building
Percy Twp.	7.3	Medium-security institution

EMPLOYMENT AND INCOME

The Ontario labour force numbered 2,548 thousand in April, 1965. Unemployment was limited to 80 thousand or approximately 3.1% of the labour force. This was virtually no change from March. In contrast, the unemployment rate was 3.6% in April, 1964.

On a seasonally adjusted basis, labour income in Ontario totalled $856 million in February, a fractional decrease from January. This was an increase of 7.7% from February last year. Using unadjusted data, the increase is over 8% of which 3.5% can be attributed to higher average wages and salaries and 5.1% to higher employment levels.

In a comparison of average weekly earnings in February, 1965 with those in February of the previous year, the manufacturing and trade sectors showed below average gains. The highest proportional gains were in the finance, insurance and real estate sectors (+ 7.8%), and in public utility operation (+ 5.9%).

PRICES

Based on 1949 = 100, the Canadian Consumer Price Index was 137.7 in April, an increase of 0.3% from March. Six of the seven components showed increases while the tobacco and alcohol index remained unchanged.

The April Wholesale Price Index for 30 Industrial Materials was 0.9% above that of March as a result of increased prices for structural shapes, tin, raw wool and beef hides. Small decreases were registered for cotton-seed oil, linseed oil, raw sugar, raw rubber and hogs.

The Canadian Farm Products Index for April was 228.7 based on 1935-39 = 100. This increase of 1.3% from March reflected a sharp 4% increase in the field products index offset by a slight decrease in the animal products index. Price increases took place in eastern markets for potatoes, rye, peas, barley and corn. Western market increases were mainly for potatoes and hay.

FINANCE

A slight tightening in the supply of loanable funds in all sectors of the Canadian money market occurred towards the end of April. Reflecting this condition, the day-to-day loan rate, which had opened the month at 3¼%, closed the month at a level of 3¾% to 3⅞%.

On light trading volume, prices of most outstanding issues comprising virtually all sectors of the Canadian bond markets tended to fluctuate within a very narrow and mixed range throughout April. The 1965-66 Federal Budget, brought down on April 26th, had little impact on bond prices despite its prime provision calling for a 10% reduction in the basic tax payable under the personal income tax law – subject to a maximum reduction of $600 per year. New Canadian bond financings for the first quarter of 1965 totalled $1.47 billion, up 19.8% from last year's comparable total of $1.22 billion.

There was a modest resurgence in demand for industrial equities listed on the Canadian stock exchanges during April. The Toronto Stock Exchange Industrial Index reached a then all-time closing high of 175.83 by mid-month easing slightly thereafter to close the month at a level of 174.97 – a gain nevertheless of some 3.30 points on Index over the month.

Canada's foreign exchange reserves increased by some $12.4 million during April to close the month at a level of US $2,566.5 million. This addition to our reserve position reflected the substantial increase in Canada's value of exports during the previous month and an additional volume of corporate borrowings being placed in the U.S. markets.

In terms of U.S. funds, the value of the Canadian dollar appreciated during April. Strength was particularly evident in the first half of April when the value of the Canadian dollar rose from its month-opening level of 92.52 cents to 92.83 cents on April 14th. Thereafter, slight price erosion occurred and by the end of the month the Canadian dollar was quoted at 92.63 cents.

FEDERAL BUDGET — 1965-66

Finance Minister Gordon's budget for 1965-66, presented to Parliament on April 26th, 1965, forecasts a deficit of $300 million, based on estimated revenues of $7.4 billion and expenditures of $7.7 billion. This is the ninth consecutive year in which a deficit has been forecast. However, though the 1964-65 budget envisaged a deficit of $455 million, it is now expected that this will be $83 million, revenues for the year having exceeded all expectations because of the extent of Canada's economic growth.

It is anticipated that the 1965-66 operation of the Old Age Security Fund will result in a surplus of $240 million, part of which will be applied to loan repayment and the balance to the programme for acceleration of old age pension payments.

Though a reduction of 10% in the basic rates for personal income tax was announced, no major revisions in the tax structure are contemplated, pending the publication of the report of the Royal Commission on Taxation. Several measures were introduced which not only extended the operating time for certain tax concessions, as well as broadening tax allowances for specified dependants, but also closed various loop-holes permitting tax evasion.

A major undertaking was that of the setting up of the Canada Development Corporation, its function being the investment of funds in industrial

opportunities. With an authorized capitalization of $1 billion, it will be financed by government and public funds and the shares initially will cost $5.00 each.

The reaction of the business community was one of disappointment in that no provision was made for either the reduction of corporation income taxes or for some amelioration of the 11% sales tax on construction materials, machinery, etc. The public at large welcomed the reduction in income tax rates though it was felt that the benefit accruing to the tax-payers in the lower income groups was very small.

FOREIGN TRADE

Advance trade statistics indicate that Canadian commodity imports in March this year were valued at $731.1 million, a substantial increase over the $576.0 million level of March, 1964. As a result, imports for the first quarter were 12% higher than in the comparable period of 1964.

At $540.1 million, imports from the United States in March were 31% higher than a year ago. March imports from the United Kingdom rose only 9% to $53.7 million. Imports from other Commonwealth and preferential rate countries dropped 16% to a $21.5 million level. Purchases from all other countries increased 29% to $115.8 million.

On the other hand, exports this year have not shown the same proportional increase in either March or the first quarter. Total exports in March were valued at $706.4 million, an 18% increase over March, 1964.

During the first three months, exports were valued at $1,850.5 million, a modest 4% increase over the comparable period last year. As a result, the export balance for the first quarter was $4.7 million as compared to an export balance of $129.1 million in the January to March period in 1964.

ECONOMIC OBJECTIVES OF ONTARIO

In the recent presentation of the estimates of the Ontario Department of Economics and Development, the Hon. S. J. Randall took the opportunity to assert the economic goals towards which Ontario is working. These goals reflect the implications for Ontario of national achievement of the 1970 targets indicated by the Economic Council of Canada.

(1) An average of at least 75,000 new jobs a year.

(2) An unemployment rate of no more than 2% by 1970.

(3) An average productivity increase of 2.5% per year.

(4) A sharp increase in exports of manufactured goods.

(5) An overall annual growth rate in gross provincial product of at least 5.5% in constant dollars.

The Minister said that over the past two years Ontario's economic growth had already matched the target rates. Reviewing the employment record, the Minister pointed out that prosperity was not limited to a few metropolitan centres but was spread across the whole province. In February this year only 2 of the 35 National Employment Service Labour Markets in the province had substantial labour surpluses.

The Minister pointed out that increased economic activity necessitated both higher education and better health and living conditions for a growing labour force. The fact that new skills are consistently in demand puts a premium on education.

The attainment of the goals for 1970 is dependent on the realization by all concerned that the trend toward proportionally reduced employment in the goods sector and greater employment in the service sector will definitely continue. To emphasize this point, the Minister presented a series of related tables prepared by the Department of Economics and Development. They may be obtained by writing to this Department.

Two of the three tables, reproduced below, compare the structure of employment in 1961 and 1970, if the targets are met. The first table clearly sets out the expected growth of 56,700 per year in the service sector as compared to an annual average employment increase of 17,300 in the goods sector. Thus the proportion of total Ontario employment in the goods sector should decline from 46.6% in 1961 to 40.6% in 1970 (Table 2).

The principal absolute increases will occur in the manufacturing, trade and community service sectors. The importance of increased manufacturing output to the achievement of the targets is illustrated by a required average increase of manufacturing employment of 15,200 a year. In the wholesale and retail trades, the annual increase should average 14,800. Community service employment, including education and health services should experience a similar rise of 14,500 per year.

All the industries in which employment will decrease are in the extractive goods sector. Employment levels in agriculture, forestry and mining are expected to show annual average declines of 3,800, 400 and 400 respectively.

The third table illustrates the distribution by industry of the total value of production at factor cost in Ontario for 1956, 1963 and 1970. When read with the second table, this data indicates the relative increases in productivity expected for different industries.

ONTARIO POTENTIAL EMPLOYMENT BY INDUSTRY 1961-1970

	Census Report 1961 000's	*Potential 1970 000's*	*Average Annual Change 1961-70 000's*
GOODS SECTOR			
Agriculture	168.8	135	–3.8
Fishing and Trapping	2.2	3	0.1
Forestry	16.7	13	–0.4
Mining	42.9	39	–0.4
Total Extractive Goods	229.9	190	–4.4
Manufacturing	627.1	764	15.2
Construction	123.8	175	5.7
Electric Power and Gas Utilities	26.5	32	0.6
Water and Other Utilities	2.5	4	0.2
Total Secondary Goods	779.9	975	21.7
TOTAL GOODS SECTOR	1,009.7	1,165	17.3
SERVICE SECTOR			
Transportation, Storage and Communication[1]	140.0	192	5.8
Trade (wholesale and retail)	306.5	440	14.8
Finance, Insurance and Real Estate	91.3	130	4.3
Public Administration and Defence[1]	196.8	239	4.7
Community Services	205.2	336	14.5
Recreation Services	14.6	33	2.0
Business Services	34.6	60	2.8
Miscellaneous Services	19.3	33	1.5
TOTAL SERVICE SECTOR	1,129.1	1,639	56.7
TOTAL EMPLOYMENT[2]	2,321	2,955	70.4[3]

[1] Post office is included in Public Administration.
[2] The sum of the components is not equal to total employment as the latter figure for 1961 is the annual average of the monthly labour force survey.
[3] The figure 70.4 thousand is the average annual increase for the period 1961-1970. For the period 1963-1970, the average will be 75,000 new jobs per year.

PERCENTAGE DISTRIBUTION OF EMPLOYMENT IN ONTARIO

	1951	*1961*	*1970*
GOODS SECTOR			
Agriculture	11.7	7.7	4.7
Fishing and Trapping	0.1	0.1	0.1
Forestry	1.2	0.8	0.5
Mining	1.7	1.9	1.4
Total Extractive Goods	14.7	10.5	6.6
Manufacturing	34.3	28.7	26.6
Construction	5.8	5.7	6.1
Electric Power and Gas Utilities	1.4	1.2	1.1
Water and Other Utilities	0.3	0.1	0.1
Total Secondary Goods	41.9	35.7	34.0
TOTAL GOODS SECTOR	56.7	46.2	40.6
SERVICE SECTOR			
Transportation, Storage and Communication[1]	6.8	6.4	6.7
Trade (wholesale and retail)	12.5	14.0	15.3
Finance, Insurance and Real Estate	3.3	4.2	4.5
Public Administration and Defence[1]	6.8	9.0	8.3
Community Services	6.4	9.4	11.7
Recreation Services	0.6	0.7	1.2
Business Services	1.1	1.6	2.1
Personal Services	4.7	5.5	6.1
Miscellaneous Services	0.2	0.9	1.2
TOTAL SERVICE SECTOR	42.3	51.6	57.2
Unspecified	1.0	2.2	2.2
TOTAL EMPLOYMENT	100.0	100.0	100.0

[1] Post Office is included in Public Administration.

PERCENTAGE DISTRIBUTION BY INDUSTRY OF TOTAL VALUE OF PRODUCTION AT FACTOR COST IN ONTARIO, 1956, 1963 AND POTENTIAL 1970

(Based on current value dollars)

	1956	*1963*	*1970*
GOODS SECTOR			
Agriculture, Fishing and Trapping	3.8	3.5	2.6
Forestry	0.7	0.4	0.2
Mining	3.3	2.9	2.3
Total Extractive Goods	7.7	6.8	5.1
Manufacturing	35.3	32.4	31.0
Construction	5.6	4.7	5.7
Public Utilities	3.5	3.6	3.5
Total Secondary Goods	44.4	40.7	40.3
TOTAL GOODS SECTOR	52.0	47.5	45.4
SERVICE SECTOR			
Transportation, Storage and Communication	7.7	7.1	5.6
Trade (wholesale and retail)	13.4	13.0	12.6
Finance, Insurance, Real Estate and Services	20.6	25.1	29.2
Public Administration and Defence	6.3	7.3	7.2
TOTAL SERVICE SECTOR	48.0	52.5	54.6
TOTAL GROSS DOMESTIC PRODUCT AT FACTOR COST	100.0	100.0	100.0

THE INSTITUTIONAL INVESTOR AND THE SECURITIES MARKET

ROLAND W. JONES, JR.
Economist, Financial Research Branch
ONTARIO DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Total assets of Canada's financial institutions, estimated in excess of $40 billion at present, have not only doubled over the past decade but have grown at a rate slightly above that of Canada's Gross National Product. It is not surprising therefore, that the very magnitude of such assets and the extent of control which the financial institutions exercise over our nation's capital resources have given rise to considerable concern as to productivity of such funds, or in other words, the use to which they are being put. Virtually every facet of the composition of financial institutions and their operations was examined in considerable detail by the recent Royal Commission on Banking and Finance. Similarly, these areas were highlighted by the Economic Council of Canada in its first Annual Review and also specifically mentioned by the Governor of the Bank of Canada in his latest Annual Report.

While attention in each of these reports was essentially focussed upon the respective financial institutions' scope of operations or structural composition, it appeared to us that only limited consideration was given to their investment habits and practices. Accordingly, in this article an attempt is made to evaluate what impact these habits have on our securities markets. We approached this task by aspiring to answer the following questions:

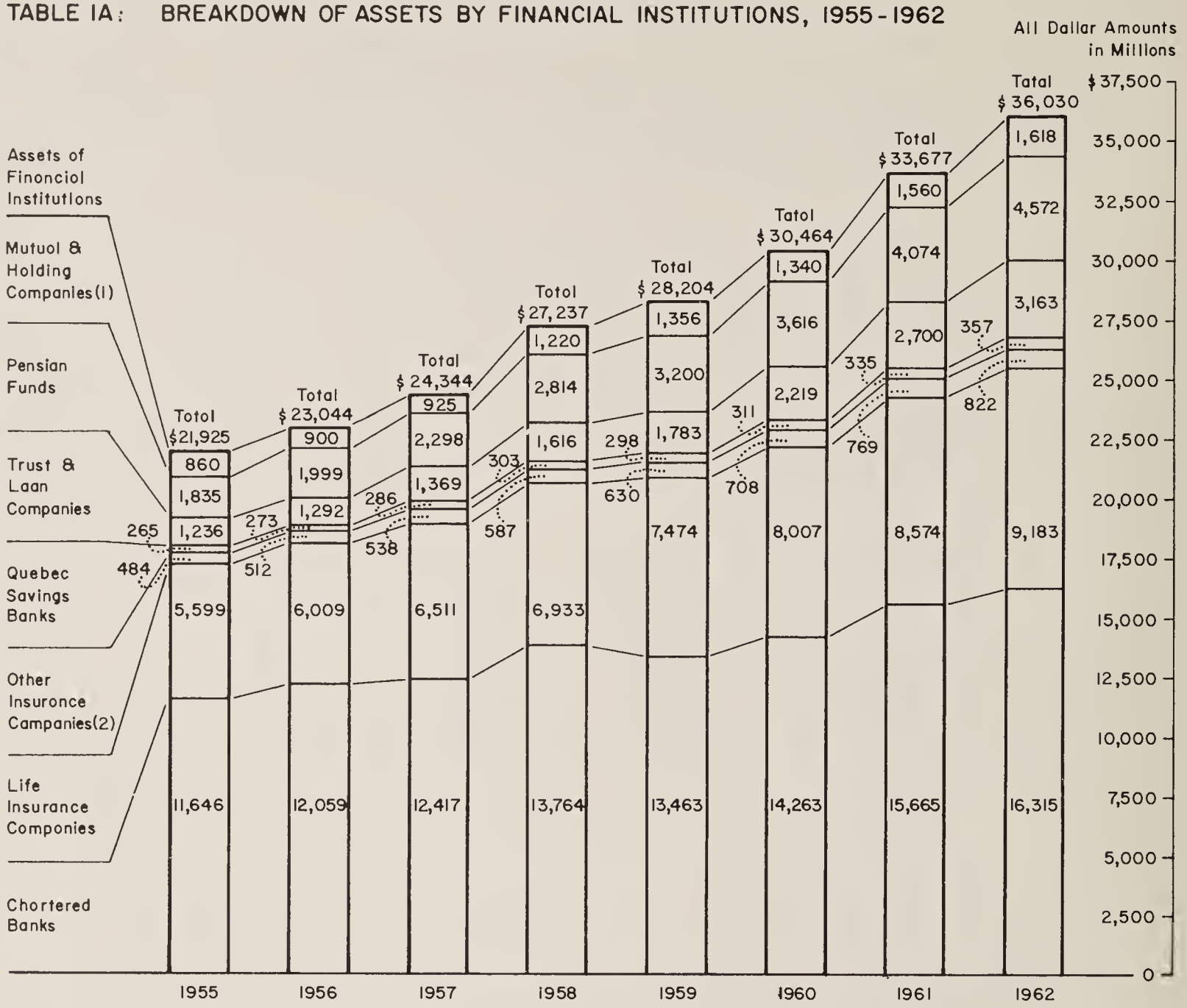
. . . Do they provide a ready source of capital to new issue financings?
. . . Does the institutional investors' position serve to otherwise disrupt the market's stability?
. . . Do they limit the supply and thus availability of securities in the open market and thereby reduce the market's resilience?
. . . Do they limit their investments to only the high quality issues in the stock market?
. . . Do they constitute a channel through which the proportion of foreign equity holdings may be effectively reduced?
. . . Do these investors actively change their investment position between the various markets of financing media?
. . . What will be the invested portfolio capital requirements of Canada by 1970, projecting a $71.5 billion level of Gross National Product?
. . . Through which investors and in what proportions should this capital be supplied?
. . . What is generally going to be the impact of the Canada Pension Plan upon the securities market in the future?

CANADA'S FINANCIAL INSTITUTIONS

The institutions falling within this category and the magnitude of their assets is illustrated in Tables 1A & 1B. The period covered is essentially limited — prior to 1955 and following 1962, data is either not available or else in a form which may not be applied on a comparative basis. Virtually each type of financial institution has contributed to the growth of the entire system. Foremost amongst these is the rate of growth which has been accorded the trust and loan companies and pension funds. Over this eight year period, the average rate of expansion in the assets of trust and loan companies has been no less than 12.4 per cent and was 17.1 per cent for the fiscal year of 1962. Pension funds, on the other hand, expanded at an equivalent annual rate of 12.5 per cent over this period; the year-to-year increase for 1962, however, was only 7.0 per cent. The average rate of increase in total assets for all types of institutions together nevertheless, was noticeably similar to this 7.0 per cent level at the overall rate of 6.8 per cent.

Essentially, the very nature of these financial institutions deems that they must commit available funds to an income earning capacity as early as possible. This necessitates that most of these funds are directed into the securities markets. Accepting this truism we can now establish whether or not this growth in dollar assets either exceeds or is less than the new financing requirements of our principal borrowers, namely, the Government of Canada, the various provinces, municipalities and corporations.

TABLE IA: BREAKDOWN OF ASSETS BY FINANCIAL INSTITUTIONS, 1955-1962



(1) F. P. Guide to Investment Companies

(2) Supt. of Insurance Annual Report

Source: Bank of Canada Statistical Supplement

Table 1-B
GROWTH IN TOTAL NET ASSETS OF CANADA'S FINANCIAL INSTITUTIONS, 1955 THROUGH 1962

Percentage Year to Year Change

	1956 over 1955	*1957 over 1956*	*1958 over 1957*	*1959 over 1958*	*1960 over 1959*	*1961 over 1960*	*1962 over 1961*	*Average Annual Change 1955-1962*
Chartered Banks	3.5	3.0	10.8	—2.2	5.9	9.8	4.1	3.8
Life Insurance Companies	7.3	8.4	6.5	7.8	7.1	7.1	7.1	7.3
Other Insurance Companies	5.8	5.1	9.1	7.3	12.4	8.6	6.9	7.6
Quebec Savings Banks	3.0	4.8	5.9	—1.7	4.4	7.7	6.6	3.8
Trust & Loan Companies	4.5	6.0	18.0	10.3	24.5	21.7	17.1	12.4
Pension Funds	8.9	15.0	22.5	13.7	13.0	12.7	7.0	12.5
Mutual Funds & Holding Co's.	4.6	2.7	31.9	11.1	—1.2	16.4	3.7	5.8
Total	5.1	5.6	11.9	3.6	8.0	10.5	7.0	6.8

All average annual rates of change are calculated by geometric averaging.

TABLE 2

GOVERNMENT OF CANADA DIRECT AND GUARANTEED BONDS

	INSTITUTIONAL HOLDINGS										
	Total Inst. Holdings	*Chartered Banks*	*Life Insur. Co's.*	*Other Insur. Co's.*	*Quebec Savings Banks*	*Loan & Trust Co's.*	*Pension Funds*	*Federal, Prov. & Munic. Gov'ts*	*General Public Holdings*	*Foreign Holdings*	*Total Value of Securities Outstanding*
1962 ($ million)	9,809	3,371	677	499	32	392	610	4,228	8,685	954	19,448
% of Total Value	50.4	17.3	3.5	2.6	0.2	1.3	2.0	28.1	37.7	4.0	100.0
% chg. over prior year	—11.3	—11.0	1.5	2.9	—13.5	2.6	1.3	1.4	28.6	16.3	4.4
% of all Insts. held	100.0	34.4	6.9	5.1	0.3	4.0	6.2	43.1			
1961 ($ million)	11,063	3,789	677	485	37	382	602	4,170	6,753	820	18,636
% of Total Value	59.4	20.3	3.6	2.6	0.2	2.0	3.1	21.7	44.7	4.9	100.0
% of chg. over year	12.4	24.1	— 4.6	2.3	— 5.1	18.3	— 8.1	— 1.9	— 4.8	1.5	5.0
% of all Insts. held	100.0	34.2	6.0	4.4	0.3	3.5	5.4	37.7			
1960 ($ million)	9,845	3,052	699	474	39	323	655	4,252	7,094	808	17,747
% of Total Value	55.5	17.2	3.9	2.7	0.2	2.0	3.2	22.4	36.2	4.4	100.0
% of chg. over year	0.9	9.2	13.3	8.5	39.3	34.0	10.8	1.3	6.6	11.9	3.6
% of all Insts. held	100.0	31.0	7.1	4.8	0.4	3.3	6.7	43.2			
1959 ($ million)	9,756	2,795	617	437	28	241	591	4,196	6,657	722	17,135
% of Total Value	56.9	16.3	3.6	2.6	0.2	1.8	3.7	24.0	40.0	4.5	100.0
% of chg. over year	— 5.7	—20.6	10.8	17.8	nil	5.2	15.7	— 6.0	22.5	14.2	4.4
% of all Insts. held	100.0	28.6	6.3	4.5	0.3	2.5	6.1	43.0			
1958 ($ million)	10,349	3,521	557	371	28	229	511	4,464	5,435	632	16,416
% of Total Value	63.0	21.4	3.4	2.3	0.2	1.4	3.4	24.5	38.9	4.2	100.0
% of chg. over year	9.9	33.3	3.5	0.8	—28.2	26.5	6.2	2.6	4.4	17.5	8.2
% of all Insts. held	100.0	34.0	5.4	3.6	0.3	2.2	4.9	43.1			
1957 ($ million)	9,420	2,641	538	368	39	181	481	4,349	5,207	538	15,165
% of Total Value	62.2	17.4	3.5	2.4	0.3	1.4	3.1	27.2	33.2	3.8	100.0
% of chg. over year	— 1.2	4.6	—10.0	5.4	—13.3	2.3	29.3	— 3.7	1.7	— 7.7	— 0.5
% of all Insts. held	100.0	28.0	5.7	3.9	0.4	1.9	5.1	46.2			
1956 ($ million)	9,533	2,524	598	349	45	177	372	4,518	5,118	583	15,234
% of Total Value	62.6	16.6	3.9	2.3	0.3	1.2	3.2	28.7	34.3	3.8	100.0
% of chg. over year	2.3	—19.2	—23.6	4.5	—18.2	—14.1	14.1	0.6	—15.2	— 9.9	— 4.8
% of all Insts. held	100.0	26.5	6.3	3.7	0.5	1.9	3.9	47.4			
1955 ($ million)	9,320	3,124	783	334	55	206	326	4,492	6,033	647	16,000
% of Total Value	58.3	19.5	4.9	2.1	0.3	1.2	2.4	29.7	33.6	3.8	100.0
% of all Insts. held	100.0	33.5	8.4	3.6	0.6	2.2	3.5	48.2			

SOURCE: Bank of Canada Statistical Supplement.

TABLE 3

PROVINCIAL BONDS

	INSTITUTIONAL HOLDINGS										
	Total Inst. Holdings	*Chartered Banks*	*Life Insur. Co's.*	*Other Insur. Co's.*	*Quebec Savings Banks*	*Loan & Trust Co's.*	*Pension Funds*	*Federal, Prov. & Munic. Gov'ts*	*General Public Holdings*	*Foreign Holdings*	*Total Value of Securities Outstanding*
1962 ($ million)	4,707	407	917	295	83	167	1,482	1,356	2,300	2,013	9,020
% of Total Value	52.2	4.5	10.2	3.3	0.9	1.9	16.4	15.0	25.5	22.3	100.0
% chg. over prior year	10.4	15.6	11.4	4.2	— 6.7	4.4	13.1	8.9	6.3	13.7	10.0
% of all Insts. held	100.0	8.6	19.5	6.3	1.8	3.5	31.5	28.8			
1961 ($ million)	4,262	352	823	283	89	160	1,310	1,245	2,164	1,771	8,197
% of Total Value	52.0	4.2	10.0	3.5	1.1	2.0	16.0	15.2	26.4	21.6	100.0
% of chg. over year	17.4	8.6	56.5	8.8	2.3	22.1	17.5	4.9	39.1	6.5	19.7
% of all Insts. held	100.0	8.3	19.3	6.6	2.1	3.8	30.7	29.2			
1960 ($ million)	3,630	324	526	260	87	131	1,115	1,187	1,556	1,663	6,849
% of Total Value	53.0	4.7	7.7	3.8	1.3	1.9	16.3	17.3	22.7	24.4	100.0
% of chg. over year	6.3	— 6.4	13.9	7.9	— 3.3	8.3	11.1	3.0	16.6	2.7	7.5
% of all Insts. held	100.0	8.9	14.5	7.2	2.4	3.6	30.7	32.7			
1959 ($ million)	3,416	346	462	241	90	121	1,004	1,152	1,334	1,616	6,366
% of Total Value	53.7	5.4	7.3	3.8	1.4	1.9	15.8	18.1	20.9	25.4	100.0
% of chg. over year	3.7	—16.6	11.6	8.6	—11.8	— 9.0	13.4	2.5	12.5	23.6	10.0
% of all Insts. held	100.0	10.1	13.5	7.1	2.6	3.5	29.4	33.7			
1958 ($ million)	3,295	415	414	222	102	133	885	1,124	1,186	1,307	5,788
% of Total Value	56.9	7.2	7.2	3.8	1.8	2.3	15.3	19.4	20.5	22.6	100.0
% of chg. over year	12.7	45.6	— 0.2	11.0	18.6	51.1	7.3	9.7	13.1	9.3	12.0
% of all Insts. held	100.0	12.6	12.6	6.7	3.1	4.0	26.9	34.1			
1957 ($ million)	2,924	285	415	200	86	88	825	1,025	1,049	1,196	5,169
% of Total Value	56.5	5.5	8.0	3.9	1.7	1.7	16.0	19.8	20.3	23.1	100.0
% of chg. over year	10.4	5.9	6.7	23.5	3.6	7.3	20.8	4.6	19.0	9.4	12.0
% of all Insts. held	100.0	9.7	14.2	6.8	2.9	3.0	28.2	35.1			
1956 ($ million)	2,648	269	389	162	83	82	683	980	875	1,093	4,616
% of Total Value	57.4	5.8	8.4	3.5	1.8	1.8	14.8	21.2	19.4	23.7	100.0
% of chg. over year	8.0	—16.5	9.9	14.1	3.8	—16.3	28.9	5.9	19.9	22.8	13.3
% of all Insts. held	100.0	10.2	14.7	6.1	3.1	3.1	25.8	37.0			
1955 ($ million)	2,451	322	354	142	80	98	530	925	733	890	4,074
% of Total Value	60.2	7.9	8.7	3.5	2.0	2.4	13.0	22.7	18.0	21.8	100.0
% of all Insts. held	100.0	13.1	14.4	5.8	3.3	4.0	21.6	37.7			

SOURCE: Bank of Canada Statistical Supplement.

GOVERNMENT BONDS

The Government of Canada has steadily increased its financing requirements over the years under review. This need for capital basically has arisen out of the slow rate of economic expansion that has so characterized our nation's development in the period under review. Canada bonds outstanding amounted to exactly $16.0 billion in 1955, but by 1962 had arisen to a total of $19.45 billion — an an average annual increase of some 2.4 per cent.

The position which the institutional investors had assumed in the distribution of these bonds in 1962 amounted to 50.4 per cent of their total as compared with 58.3 per cent in 1955. Included in the holdings of institutional investors, however, were the Canada bonds held by all levels of Government. These totalled $4.2 billion or 43.1 per cent of all institutional holdings in 1962 as compared to $4.5 billion or 48.2 per cent of the institutional holdings in 1955. As an outcome, it is thus apparent that the market for Canada bonds, while dependent to a considerable extent upon the institutional investor, is tending to become less dependent upon the respective governments. (See Table 2).

The institutional investor, in common with most investors, aspires to maximize the return of investments while maintaining the highest degree of safety by way of quality. Government of Canada bonds possess this prime quality, but as a consequence are sold at lower yields. Other classes of bond, reflecting their lesser financial security, stability and condition, render higher yields. The difference in yields is referred to as their yield differential and is subject to fluctuation according to the composite of business and economic factors.

While most of these financial institutions are required by regulation to maintain a stated minimum proportion of their assets in holdings of, or comparable to, Government of Canada bonds, there has been a very evident tendency to direct their funds into other classes of holdings. Institutions, since 1955 through 1962, have consequently only increased their holdings of Government bonds at an annual rate of 1.8 per cent.

Holdings by foreign investors, despite the fact that their commitments in Government of Canada bonds are relatively small, amounting to only $954 million in 1962 (5.0 per cent of all Government of Canada bonds outstanding), have been increasing their purchases of these securities at an annual rate of almost 2.7 per cent a year.

The participation of the public in Government of Canada bonds has meanwhile changed significantly. Their purchases have increased from a total of $6.0 billion in 1955 to $8.7 billion in 1962. While this volume of holdings is large, and now represents some 45 per cent of all Government of Canada debt outstanding, it is pertinent to note that almost 83 per cent of this increase is attributable to a net increase of $2,187 million arising out of the sales of Canada Savings Bonds. The amount of Canada Savings Bonds outstanding in 1955 which totalled only $2,433 million, increased to a level of $4,620 million by 1962. This represented a 9.2 per cent average annual increase over the period, while the public's holdings of all Government of Canada bonds had increased at an average annual rate of only 1.7 per cent.

PROVINCIAL BONDS

The rate at which provincial and provincially-guaranteed bond financings have increased and their pattern of distribution has followed a somewhat more pronounced though very similar trend to that already described for Government of Canada bonds. While the volumes involved are of a lesser magnitude, the overall rate of increase has been decidedly greater. From 1955 through 1962, the dollar amount of these bonds outstanding has more than doubled from $4.1 billion to slightly over $9 billion, an increase which is equivalent to more than an 11.6 per cent annual increase in borrowing activities. This marked increase in provincial financial requirements is attributable to a large degree to the growth in provincial expenditures in such areas as education, transportation, health and public welfare and other fields of direct provincial responsibility.

From 1955 through 1962, institutional investors have generally been increasing their position in these bonds as a proportion of their total net assets. For this period, their purchases and therefore corresponding holdings, have risen from $2.5 billion to $4.7 billion or at a rate of 8.9 per cent per year; this rate was considerably larger than their annual rate of expansion of total assets. Despite this apparent trend towards increasing their overall proportion of provincial bond holdings in relation to all assets, it nevertheless is pertinent to point out that, as a holder of all provincial bonds outstanding, the position of the institutional investor has been declining. In relation to the value of these bonds outstanding, their proportion has dropped from 60.2 per cent in 1955 to 52.5 per cent by 1962. Again, as has been the practice in respect to each class of bonds, provincial and municipal governments' holdings have been included as part of institutional holdings. Their proportion of institutional holdings have been on the decline, having declined from 37.7 per cent in 1955 to only 28.8 per cent by 1962. This decline was, however, more than offset by increased net purchases on the part of pension funds which increased their proportion of holdings from 21.6 per cent in 1955 to 31.5 per cent in 1962.

As a consequence of the overall decline in the proportion of all institutional holdings, financing

TABLE 4

MUNICIPAL BONDS

	INSTITUTIONAL HOLDINGS										
	Total Inst. Holdings	*Chartered Banks*	*Life Insur. Co's.*	*Other Insur. Co's.*	*Quebec Savings Banks*	*Loan & Trust Co's.*	*Pension Funds*	*Prov. & Munic. Gov'ts*	*General Public Holdings*	*Foreign Holdings*	*Total Value of Securities Outstanding*
1962 ($ million)	2,091	250	615	134	39	102	470	481	1,123	1,155	4,369
% of Total Value	47.9	5.7	14.1	3.1	0.9	2.3	10.8	11.0	25.7	26.4	100.0
% chg. over prior year	6.5	8.2	2.3	3.9	—11.4	13.3	6.8	13.1	5.9	11.5	7.6
% of all Insts. held	100.0	12.0	29.4	6.4	1.9	4.9	22.5	23.0			
1961 ($ million)	1,964	231	601	129	44	90	440	429	1,060	1,036	4,060
% of Total Value	48.4	5.7	14.8	3.2	1.1	2.2	10.8	10.6	26.1	25.5	100.0
% of chg. over year	8.4	11.1	9.9	6.6	7.3	28.6	13.1	— 1.6	17.3	1.2	8.6
% of all Insts. held	100.0	11.8	30.6	6.6	2.2	4.6	22.4	21.8			
1960 ($ million)	1,812	208	547	121	41	70	389	436	904	1,024	3,740
% of Total Value	48.4	5.6	14.6	3.2	1.1	1.9	10.4	11.7	24.2	27.4	100.0
% of chg. over year	9.8	2.0	7.9	10.0	—12.8	29.6	14.4	12.1	12.0	12.3	11.0
% of all Insts. held	100.0	11.5	30.2	6.7	2.3	3.9	21.5	24.1			
1959 ($ million)	1,651	204	507	110	47	54	340	389	807	912	3,370
% of Total Value	49.0	6.1	15.0	3.3	1.4	1.6	10.1	11.5	23.9	27.1	100.0
% of chg. over year	8.3	4.6	11.2	6.8	—11.3	— 3.6	10.0	10.2	6.5	16.9	10.0
% of all Insts. held	100.0	12.4	30.7	6.7	2.8	3.3	20.6	23.6			
1958 ($ million)	1,525	195	456	103	53	56	309	353	758	780	3,063
% of Total Value	49.8	6.4	14.9	3.4	1.7	1.8	10.1	11.5	24.7	25.5	100.0
% of chg. over year	12.0	16.1	6.8	6.2	1.9	19.1	11.2	20.5	9.9	18.5	13.0
% of all Insts. held	100.0	12.8	29.9	6.8	3.5	3.7	20.3	23.1			
1957 ($ million)	1,362	168	427	97	52	47	278	293	690	658	2,710
% of Total Value	50.2	6.2	15.8	3.6	1.9	1.7	10.3	10.8	25.5	24.3	100.0
% of chg. over year	5.3	— 9.2	7.0	14.1	— 7.1	— 2.1	12.1	7.3	18.4	19.6	11.7
% of all Insts. held	100.0	12.3	31.4	7.1	3.8	3.5	20.4	21.5			
1956 ($ million)	1,294	185	399	85	56	48	248	273	583	550	2,427
% of Total Value	53.3	7.6	16.4	3.5	2.3	2.0	10.2	11.2	24.0	22.7	100.0
% of chg. over year	5.1	—15.1	6.7	11.8	— 1.8	—11.1	24.0	8.3	11.7	22.2	10.2
% of all Insts. held	100.0	14.3	30.8	6.6	4.3	3.7	19.2	21.1			
1955 ($ million)	1,231	218	374	76	57	54	200	252	522	450	2,203
% of Total Value	55.9	9.9	17.0	3.4	2.6	2.5	9.1	11.4	23.7	20.4	100.0
% of all Insts. held	100.0	17.7	30.4	6.2	4.6	4.4	16.2	20.5			

SOURCE: Bank of Canada Statistical Supplement.

the balance of additional provincial bond market borrowing was assumed by the general public and foreign investors. In satisfying this capital requirement, the pattern of distribution for provincial bonds has found public ownership increasing from $733 million in 1955 to some $2.3 billion by 1962, or at an annual rate of about 15.9 per cent. In terms of outstanding provincial bond distribution, this increase represented a holding proportion of 25.5 per cent in 1962 as compared to 18.0 per cent for 1955.

Foreign investment, on the other hand, increased from a total of $890 million in 1955 to slightly over $2 billion in 1962. This amounted to an annual average increase of 10.2 per cent for the period or, as a proportion of holdings, equivalent to an increase from 21.8 per cent to 22.3 per cent (See Table 3).

MUNICIPAL BONDS

New capital requirements of Canadian municipalities have generally tended to expand at a consistently high rate since 1955. Their net borrowings on the securities markets have doubled as their amounts outstanding in 1962 totalled $4,369 million as compared to $2,203 million for the year 1955. The annual average increase of 10.2 per cent which this represents was no doubt fostered by our economy's recent development which has been particularly characterized by large capital expenditures in the industrialized and government sectors of our society and the continued increase in, and relocation of, our population into these areas. Associated with any and all capital expenditures and population concentrations is the necessity for the municipality to provide various types of facilities, be it educational, public works, etc., to service them. As long as a municipal area is able to attain a noteworthy and hearty rate of growth without a corresponding rate of increase in revenue resources their requirements for additional capital will continue to expand.

Municipal bonds, offering a relatively higher yield than that available from Government of Canada and most provincial or provincially guaranteed bonds, have proven themselves to be an attractive investment to the institutional investor. The net annual increase in the holdings of these bonds by the institutional investor has been some 7.6 per cent — a rate exceeding that at which institutional assets have been increasing. This annual increase in institutional holdings of municipal bonds has, however, again been lower than the rate at which the municipalities have been borrowing. Accordingly, it follows that the institutions have provided a less than proportional amount of capital than they did in 1955. The decline in actual proportions was from a level of 55.9 per cent in 1955 to one of only 47.9 per cent in 1962. The institutional sector primarily responsible for the overall decline was the chartered banks, whose proportion of institutional holdings of municipal bond issues had declined to only 12.0 per cent in 1962 from a level of 17.7 per cent in 1955.

The higher yields available on municipal bonds, as previously mentioned, meanwhile had prompted increased purchases by foreign investors. The result was an increase in their holdings, from a level of only $450 million in 1955 to 1962's total of $1,155 million, or at a rate of some 17.3 per cent per year.

Public ownership over this eight-year period, in contrast, experienced only a very minor proportional increase. In 1962, the total of these bonds in public hands amounted to $1,123 million, or 25.7 per cent of all municipal bonds outstanding as compared to $522 million, or 23.7 per cent for the year 1955 (See Table 4).

CORPORATE BONDS

The corporations' inability to generate sufficient internal funds to meet their capital requirements led to their increasing dependence upon external sources at a substantial annual rate throughout the period 1955-1962. This was a period essentially characterized by slow growth accompanied by technological change and product innovation. In acquiring this financing, the corporation is able to utilize both equity and debt financing. The relationship of one media to another, however, is generally in such a manner as to achieve the greatest degree of financial leverage without unnecessarily increasing their respective risks. The actual proportion for those corporations that are leveraged, thus depends upon the corporation's individual circumstances and corresponding industry characteristics. Overall, new corporate bond flotations for the eight years, 1955 through 1962, resulted in their value having increased from $4.6 billion to almost $8.0 billion, or at an annual average rate of 4.3 per cent. In terms of leverage, with corporate equity having increased from a book value of $22.8 billion to $38.1 billion over the same period, this resulted in a bond-equity ratio of 1 to 4.5. In 1955, this bond to equity leverage ratio was at a level of 1 to 5.0, but subsequently it increased to 1 to 4.8 for 1962.

The position assumed and thus maintained by the institutional investors in corporate bonds has experienced only a very modest proportional decline over this period. Their holdings in this respect declined from 52.2 per cent to 47.1 per cent of total corporate bonds outstanding despite an increase in dollar value, from $2.4 billion to just under $3.8 billion or at the annual expansionary rate of 5.5 per cent. The institutional investors' failure to increase their holdings of corporate bonds at a pace comparable to the overall increase in the value of these bonds largely resulted from both chartered banks, and life insurance companies having increased

TABLE 5

CORPORATE BONDS

	INSTITUTIONAL HOLDINGS										
	Total Inst. Holdings	*Chartered Banks*	*Life Insur. Co's.*	*Other Insur. Co's.*	*Quebec Savings Banks*	*Loan & Trust Co's.*	*Pension Funds*	*Prov. & Munic. Gov'ts*	*General Public Holdings*	*Foreign Holdings*	*Total Value of Securities Outstanding*
1962 ($ million)	3,756	457	2,005	158	26	254	725	231	1,225	2,994	7,975
% of Total Value	47.1	5.7	25.1	2.0	0.3	3.1	9.1	2.8	15.4	37.5	100.0
% chg. over prior year	6.2	— 3.8	4.5	8.2	4.0	— 0.2	14.4	166.0	13.5	12.1	9.5
% of all Insts. held	100.0	12.2	53.4	4.2	0.7	6.8	19.3	6.2			
1961 ($ million)	3,536	470	1,918	146	25	257	634	87	1,079	2,670	7,285
% of Total Value	48.5	6.5	26.3	2.0	0.3	3.5	8.7	1.2	14.8	36.7	100.0
% of chg. over year	— 0.8	— 0.6	— 3.3	— 2.7	nil	14.7	8.4	45.0	—20.6	5.5	— 2.3
% of all Insts. held	100.0	13.3	54.2	4.1	0.7	7.3	17.9	2.3			
1960 ($ million)	3,564	473	1,983	150	25	224	585	60	1,359	2,532	7,455
% of Total Value	47.8	6.3	26.6	2.0	0.3	3.0	7.8	0.8	18.2	34.0	100.0
% of chg. over year	6.2	— 7.6	3.1	13.6	19.0	40.0	14.4	50.0	8.0	0.5	4.5
% of all Insts. held	100.0	13.3	55.6	4.2	0.7	6.3	16.4	1.7			
1959 ($ million)	3,356	512	1,924	132	21	160	508	40	1,258	2,520	7,134
% of Total Value	47.0	7.2	27.0	1.9	0.3	2.2	7.1	0.6	17.6	35.3	100.0
% of chg. over year	4.4	— 7.6	3.6	6.5	16.7	22.1	16.5	nil	— 4.0	1.7	1.9
% of all Insts. held	100.0	15.3	57.3	3.9	0.6	4.8	15.1	1.2			
1958 ($ million)	3,214	554	1,858	124	18	131	436	40	1,310	2,477	7,001
% of Total Value	45.9	7.9	26.5	1.8	0.3	1.9	6.2	0.6	18.7	35.4	100.0
% of chg. over year	8.9	8.8	6.2	22.8	5.9	12.0	18.6	—39.4	16.9	9.4	10.5
% of all Insts. held	100.0	17.2	57.8	3.9	0.6	4.1	13.6	1.2			
1957 ($ million)	2,950	509	1,749	101	17	117	355	66	1,121	2,263	6,334
% of Total Value	46.6	8.0	27.6	1.6	0.3	1.8	5.6	1.0	17.7	35.7	100.0
% of chg. over year	11.1	— 0.2	9.3	20.2	13.3	15.8	28.2	43.5	23.7	26.0	18.2
% of all Insts. held	100.0	17.3	59.3	3.4	0.6	4.0	12.0	2.2			
1956 ($ million)	2,656	510	1,600	84	15	101	277	46	906	1,796	5,359
% of Total Value	49.6	9.5	29.9	1.6	0.3	1.9	5.2	0.9	16.9	33.5	100.0
% of chg. over year	11.8	5.8	9.6	16.7	— 6.3	14.8	38.5	— 2.1	43.4	16.2	17.7
% of all Insts. held	100.0	19.2	60.2	3.2	0.6	3.8	10.4	1.7			
1955 ($ million)	2,375	482	1,460	72	16	88	200	47	632	1,545	4,552
% of Total Value	52.2	10.6	32.1	1.6	0.4	1.9	4.4	1.0	13.9	33.9	100.0
% of all Insts. held	100.0	20.3	61.5	3.0	0.7	3.7	8.4	2.0			

SOURCE: Bank of Canada Statistical Supplement.

TABLE 6

EQUITY – COMMON AND PREFERRED STOCK AT BOOK VALUE

	INSTITUTIONAL HOLDINGS									
	Total Institutional Holdings	*Life [3] Ins. Co's.*	*Other [4] Ins. Co's.*	*Mutual [5] Funds*	*Trust [3] & Loan*	*Pension [6] Funds*	*Inv. [5] & Holding Co's.*	*General Public Holdings*	*Foreign [2] Holdings*	*Total Value [1] of Securities Outstanding*
1962 ($ million)	2,615	293	91	1,094	113	500	524	17,644	17,845	38,104
% of Total Value	6.9	0.8	0.2	3.1	0.3	1.3	1.4	46.3	46.8	100.0
% chg. over prior year	7.4	— 3.3	9.6	3.3	18.9	27.2	4.4	16.1	3.5	9.3
% of all Insts. held	100.0	11.2	3.5	41.8	4.3	19.1	20.0			
1961 ($ million)	2,435	303	83	1,059	95	393	502	15,194	17,241	34,870
% of Total Value	7.0	0.9	0.2	3.0	0.3	1.1	1.4	43.6	49.4	100.0
% of chg. over year	23.5	2.7	10.7	28.8	15.9	27.2	29.0	— 1.0	6.8	4.2
% of all Insts. held	100.0	12.4	3.4	43.5	3.9	16.1	20.6			
1960 ($ million)	1,972	295	75	822	82	309	489	15,343	16,137	33,452
% of Total Value	5.9	0.9	0.2	2.5	0.2	0.9	1.2	45.9	48.2	100.0
% of chg. over year	3.9	— 1.7	5.6	2.5	24.2	21.7	20.7	0.1	7.5	3.8
% of all Insts. held	100.0	15.0	3.8	41.7	4.2	15.7	24.8			
1959 ($ million)	1,898	300	71	802	66	254	405	15,321	15,012	32,231
% of Total Value	5.9	0.9	0.2	2.5	0.2	0.8	1.3	47.5	46.6	100.0
% of chg. over year	8.9	3.4	14.5	10.2	11.9	20.4	3.1	10.5	9.4	9.9
% of all Insts. held	100.0	15.8	3.7	2.3	3.5	13.4	21.3			
1958 ($ million)	1,743	290	62	728	59	211	393	13,863	13,724	29,330
% of Total Value	5.9	1.0	0.2	2.5	0.2	0.7	1.3	47.3	46.8	100.0
% of chg. over year	23.6	34.9	— 3.1	22.4	11.3	37.9	19.1	8.7	8.1	9.2
% of all Insts. held	100.0	16.6	3.6	41.8	3.4	12.1	22.5			
1957 ($ million)	1,410	215	64	595	53	153	330	12,748	12,695	26,853
% of Total Value	5.3	0.8	0.2	2.2	0.2	0.6	1.2	47.4	47.3	100.0
% of chg. over year	20.1	— 2.7	3.2	16.7	10.4	44.3	6.5	3.4	11.0	7.7
% of all Insts. held	100.0	15.2	4.5	42.2	3.8	10.9	23.4			
1956 ($ million)	1,167	221	62	510*	48	106	310*	12,331	11,434	24,932
% of Total Value	4.7	0.9	0.2	2.0	0.2	0.4	1.2	49.4	45.9	100.0
% of chg. over year	2.0	7.3	24.0	13.3	11.6	11.6	3.3	7.3	12.1	9.2
% of all Insts. held	100.0	18.9	5.3	43.7	4.1	9.1	26.6			
1955 ($ million)	1,144	206	50	450*	43	95*	300*	11,494	10,200	22,838
% of Total Value	5.0	0.9	0.2	2.0	0.2	0.4	1.3	50.3	44.7	100.0
% of all Insts. held	100.0	18.0	4.4	38.3	3.8	8.3	26.2			

SOURCES AND EXPLANATIONS: [1] Taxation Statistics — refers to only Corps' having over $1 million assets or profits over $50,000. [2] Cnd. Balance of Int'l Indebtedness. [3] Bank of Canada Statistical Supplement. [4] Supt. of Ins. for Can. Annual Reports Vol. 1. [5] Financial Post Survey of Ins. Co's. [6] DBS publication 74-201. * Assumed or Estimated.

their holdings at a much less than proportional rate. In terms of proportions, this change was equivalent to a decline from 20.3 per cent and 61.5 per cent of total institutional holdings in 1955, to one of 12.2 per cent and 53.4 per cent respectively in 1962. Only pension fund investors attained a noticeable increase in their ownership proportion of all institutional holdings; this was through an increase from 8.4 per cent in 1955 to a proportional high of 19.3 per cent in 1962.

On the other hand, the foreign investor and the general public annually increased their holdings of corporate bonds at a rate of 6.6 per cent and 4.2 respectively. This resulted in foreign holdings having increased from $1.5 billion, or 33.9 per cent of outstanding corporate bonds in 1955 to $3.0 billion, or 37.5 per cent in 1962. Public ownership meanwhile increased from 13.9 per cent ($632 million) in 1955 to a 15.4 per cent participation ($1,225 million) by 1962 (see Table 5).

CORPORATE STOCK EQUITY

The rate at which Canada increased its Gross National Product within the eight-year period from 1955 through 1962, was one of the slowest of all industrialized nations.

Corporate activity over this period, accordingly, followed a very similar pattern while nevertheless incurring a noteworthy increase in the value of securities outstanding. This was largely attributable to the period from 1955 to 1959, in which time their value increased from some $22.8 billion in 1955 to $32.2 billion in 1959. Characteristic of this period, and no doubt accountable to a noticeable degree for this increase, were the large amounts being expended on new construction and machinery and equipment programs by business, despite relatively low corporate profit levels.

The continued necessity to grow, and the corresponding obligation to keep up with expansion, regardless of profits, thus resulted in the corporation resorting to external sources. A degree and enhanced proportion of this amount accordingly was acquired through the institutional investor. In this respect, their investments have increased at an annual rate of a surprising 7.6 per cent or to a total book value of $2.6 billion in 1962 as compared to a value of only $1.1 billion for 1955. This value, nevertheless, represents only 6.9 per cent of all corporate equities outstanding in 1962. Of all institutional holdings, pension fund investments have accounted for the largest proportional increase, rising from 8.3 per cent in 1955 to 19.1 per cent by 1962. Equity investment holdings of life insurance companies, in contrast, declined from 18.0 per cent of institutional holdings in 1955 to 11.2 per cent in 1962.

The proportion of Canadian corporate equities in the hands of foreign investors has long been, and no doubt shall continue to be, a subject for widely debated controversy and policy consideration. The subject of foreign ownership, however, is not examined in this article in terms of this controversy, but rather is viewed in the light of the service it renders to the overall spectrum of equity financing. While the data illustrated in Table 6 can by no means be considered as totally comparable, due to the different sources used, they can be said to be fairly representative of the trend in the distribution of Canadian equity holdings. Within this context, it is apparent that the increase in foreign holdings of Canadian equities has been at only a slightly greater rate than has been the corresponding expansion in the value of equity securities outstanding. The annual increase in foreign holdings has been at a rate of only 3.8 per cent with their book value having risen from $10.2 billion in 1955 to $17.8 billion by 1962. As a proportion of all equity securities outstanding their position consequently had risen to 46.8 per cent of this total for 1962 as compared to 44.7 per cent in 1955.

Despite an annual rate of increase of almost 4.5 per cent in the amount of equities in the hands of the public, their proportion has declined from 50.3 per cent in 1955 to 46.3 per cent by 1962. This concentration in public hands, however, is not as great as appears due to the fact that this total includes a large amount of securities which might otherwise have been considered as institutionally managed. This refers to the large and expanding amount of securities which are held in trust by the trust companies but for the purpose of asset-totalling cannot be considered as an actual trust deposit. Also included would be the substantial amount of equity investments held by other corporations and businesses.

SUMMARY OF INVESTMENT HOLDINGS BY MAJOR PARTICIPANTS

Essentially, three broad classes of investors hold Canadian bond and equity obligations. These comprise the institutional, the public and the foreign investors. In Tables 7A and 7B, changes in the holdings of these three sectors for each type of investment are shown in dollar terms and are also expressed on a percentage basis for the period 1955 through 1962.

As these tables illustrate, institutional investors have been the dominant force in Canadian bond markets as a result of their holdings of total outstanding issues. However, their dominance since 1955 with respect to each class of such debt financing has been declining in proportionate terms. Consequently, the market has seen institutional investors assume the role of supplying a substantial but less than proportional amount of new capital requirements. This gap has been filled by the public

TABLE 7A

SUMMARY OF INVESTMENT DISTRIBUTION BY CLASS OF INVESTMENT

(Breakdown via Dollar Value of Holdings in Millions)

	1955 $	*1956* $	*1957* $	*1958* $	*1959* $	*1960* $	*1961* $	*1962* $
Institutional	9,320	9,533	9,420	10,349	9,756	9,845	11,063	9,809
Public	6,033	5,118	5,207	5,435	6,657	7,094	6,753	8,685
Foreign	647	583	538	632	722	808	820	954
Government of Canada	16,000	15,234	15,165	16,416	17,135	17,747	18,636	19,448
Institutional	2,451	2,648	2,924	3,295	3,416	3,630	4,262	4,707
Public	733	875	1,049	1,186	1,334	1,556	2,164	2,300
Foreign	890	1,093	1,196	1,307	1,616	1,663	1,771	2,013
Provincial Bonds	4,074	4,616	5,169	5,788	6,366	6,849	8,197	9,020
Institutional	1,231	1,294	1,362	1,525	1,651	1,812	1,964	2,091
Public	522	583	690	758	807	904	1,060	1,123
Foreign	450	550	658	780	912	1,024	1,036	1,155
Municipal Bonds	2,203	2,427	2,710	3,063	3,370	3,740	4,060	4,369
Institutional	2,375	2,656	2,950	3,214	3,356	3,564	3,536	3,756
Public	632	906	1,121	1,310	1,258	1,359	1,079	1,225
Foreign	1,545	1,796	2,263	2,477	2,520	2,532	2,670	2,994
Corporate Bonds	4,552	5,359	6,334	7,001	7,134	7,455	7,285	7,975
Institutional	1,144	1,167	1,410	1,743	1,898	1,972	2,435	2,615
Public	11,494	12,331	12,748	13,863	15,321	15,343	15,194	17,644
Foreign	10,200	11,434	12,695	13,724	15,012	16,137	17,241	17,845
Corporate Equities	22,838	24,932	26,853	29,330	32,231	33,452	34,870	38,104
Institutional	16,521	17,298	18,066	20,126	19,963	20,823	23,260	22,978
Public	19,414	19,814	20,815	22,552	25,484	26,256	26,250	30,977
Foreign	13,732	15,456	17,350	18,920	20,782	22,164	23,538	24,961
Total Equity & Debt	49,667	52,568	56,231	61,598	66,238	69,243	73,048	78,916

TABLE 7B

SUMMARY OF INVESTMENT DISTRIBUTION BY CLASS OF INVESTMENT

(Breakdown via Percentage Composition of Holdings)

	1955 %	*1956* %	*1957* %	*1958* %	*1959* %	*1960* %	*1961* %	*1962* %
Institutional	18.8	18.1	16.8	16.8	14.7	14.2	15.1	12.4
Public	12.1	9.7	9.1	8.8	10.1	10.2	9.2	11.0
Foreign	1.3	1.1	1.0	1.1	1.1	1.2	1.1	1.2
Government of Canada Debt	32.2	29.0	27.0	26.7	25.9	25.6	25.5	24.6
Institutional	4.9	5.0	5.2	5.3	5.2	5.2	5.8	6.0
Public	1.5	1.7	1.9	1.9	2.0	2.2	3.0	2.9
Foreign	1.8	2.1	2.1	2.2	2.4	2.5	2.4	2.6
Provincial Debt	8.2	8.8	9.2	9.4	9.6	9.9	11.2	11.4
Institutional	2.5	2.5	2.4	2.5	2.5	2.6	2.7	2.6
Public	1.0	1.1	1.2	1.2	1.2	1.3	1.5	1.4
Foreign	0.9	1.0	1.2	1.3	1.4	1.5	1.4	1.5
Municipal Debt	4.4	4.6	4.8	5.0	5.1	5.4	5.6	5.5
Institutional	4.8	5.1	5.2	5.2	5.1	5.1	4.8	4.8
Public	1.3	1.7	2.0	2.1	1.9	2.0	1.5	1.6
Foreign	3.1	3.4	4.0	4.0	3.8	3.7	3.7	3.8
Corporate Debt	9.2	10.2	11.3	11.3	10.8	10.8	10.0	10.1
Institutional	2.3	2.2	2.5	2.8	2.9	2.8	3.3	3.3
Public	23.2	23.4	22.7	22.5	23.1	22.2	20.8	22.4
Foreign	20.5	21.8	22.6	22.3	22.7	23.3	23.6	22.6
Corporate Equity	46.0	47.4	47.8	47.6	48.7	48.3	47.7	48.3
Institutional	33.3	32.9	32.1	32.7	30.1	30.1	31.8	29.1
Public	39.0	37.7	37.0	36.6	38.5	37.9	36.0	39.3
Foreign	27.7	29.4	30.9	30.7	31.4	32.0	32.2	31.6
Total Equity & Debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

and foreign investors particularly with. respect to provincial and corporate equity and debt obligations.

The role of the institutional investor in equity participation since 1955, though still very modest, has nevertheless become more prominent. Equity requirements, however, are still to a large extent met by the public and foreign investors. While foreign and public holdings are close to being in balance, it should nevertheless be borne in mind that foreign holdings in many instances are in large subsidiary companies whose operations and structure in many instances reflect the policies set by the parent company. The public's position, on the other hand, might conceivably tend to be largely committed to small localized corporate enterprises.

In view of existing legislation governing equity participation on the part of the institutional investors and their ability to commit their funds in as sizeable amounts as possible, without disrupting the market, it follows that most of such equity holdings are thus in those companies having a high degree of foreign ownership.

The ability of the institutional investor, therefore, to influence the degree of foreign predominance has to date been relatively limited. While they have no doubt capitalized and profited from their equity position, nevertheless, they have not yet served as an effective media to increase the overall proportion of Canadian equities in the hands of domestic interests.

REQUIREMENTS FOR PORTFOLIO INVESTMENTS — 1970

In its first annual review, the Economic Council of Canada has depicted a striking picture of the potential Canadian economy of 1970. It describes Canada as potentially expanding in population, productivity and social vitality at the highest rate in its history. This goal, which is within Canada's grasp, nevertheless requires a number of basic changes in both "private decisions and public policies toward the achievement and maintenance of high standards of performance in the economy". The potential output target for the economy by 1970 calls for an average compound advance, from 1962, of almost 7.4 per cent per year in the value of total production of goods and services to a Gross National Product projected level of $62.5 billion in constant 1963 terms — or to about $71.5 billion allowing for a 2% per annum increase in prices as was assumed by the Council in making its projections.

In projecting debt and equity requirements within the framework of this $71.5 billion, we assumed that the trends of portfolio investment evident in 1955, 1959, and 1962, might well continue to be representative of 1970. (See Table 8.)

CANADA PENSION PLAN

The Canada Pension Plan, in permitting participating provinces access to, and discretion over, the investment of funds paid in by their residents, will at least be predestined to have a marked impact upon the market for provincial and provincially-guaranteed bond issues. This in turn, will have secondary effects on all sections of the bond markets. This emanates from the fact that each province will likely tend to purchase its own debt obligations in preference to those of the Federal Government.

The impact of the plan on the entire interest rate structure of the securities markets has been the subject of considerable controversy. The Report of the Royal Commission on Banking and Finance and the Annual Review of the Economic Council of Canada clearly illustrate this point.

The Department of Insurance (Ottawa) anticipates that by 1970 the fund (exclusive of Quebec) will total some $2.5 billion, and by 1985 will have risen to a level of $7.5 billion. Relating this $2.5 billion level of investable funds to our projected total requirement of provincial debt financing of about $17,875 million for that year, it would indicate that the pension fund could possibly provide some 14 per cent of all provincial bond financing. This proportion of holding, no doubt, would have an impact upon their distribution. Initially, with such a flow of new funds into these bonds, and especially considering that they are only expected to increase in dollar volumes outstanding by some $8,855 million, there would be very likely an induced tendency towards lower yields. The downward readjustment in yields of provincial and provincially-guaranteed bonds, however, would be temporary in that the higher yields available on other bonds would tend to attract each class of investor to redirect its funds into these other securities until yields are once again realigned with their prior quality-yield relationship. This presupposes that the withdrawal of funds from the public will be offset by an increased rate of national savings in the private sector (see Table 8). We feel this contention is supported by the possibility of some degree of further tax relief in the near future.

CONCLUSION

Based on the foregoing text, we can now attempt to answer those questions posed at the commencement of this article. Initially, it appears that Canada's financial institutions have grown at a considerably slower rate than the corresponding expansion in the requirements for new borrowing by virtually all levels of Government and domestic corporations, be it either through debt or equity financings. Accordingly, while institutional investments have tended to be large and particularly dominant in the holding of bonds, their proportion

TABLE 8

LEVELS OF INCOME, SAVINGS AND PORTFOLIO INVESTED CAPITAL (GOVERNMENT OF CANADA, PROVINCIAL, MUNICIPAL, AND CORPORATE DEBT AND EQUITY) ALONG WITH CAPITAL SOURCES REQUIRED TO SUSTAIN VOLUME OF GROSS NATIONAL PRODUCT FOR SELECTED YEARS 1955, 1959, 1962 AND 1970 (projected)

($ in current dollars)

	1955		*1959*			*1962*				*1970 (projected)*				
					% change			*% change*				*% change*		
	$	*% of GNP*	*$*	*% of GNP*	*1959 over 1955*	*$*	*% of GNP*	*1962 over 1955*	*1962 over 1959*	*$*	*% of GNP*	*1970 over 1955*	*1970 over 1959*	*1970 over 1962*
Gross National Product	27,132	100	34,784	100	28	40,401	100	49	16	71,500	100	164	106	77
National Income	20,737	76	26,417	76	27	36,606	76	48	39	54,340	76	162	106	48
National Savings	4,951	18	5,834	17	18	6,891	17	31	18	14,300	20	189	145	108
Personal	850	3	1,357	4	60	2,358	6	177	74	5,005	7	489	269	112
Business	4,103	15	5,063	15	23	5,572	14	33	10	9,295	13	127	84	67
Total Equity & Debt	49,667	183	66,238	190	33	78,916	195	59	19	143,000	200	188	116	81
Debt:														
Govt. of Canada	16,000	59	17,135	49	7	19,448	48	22	13	30,745	43	92	79	58
Provincial	4,074	15	6,366	18	56	9,020	22	121	42	17,875	25	339	181	98
Municipal	2,203	8	3,370	10	53	4,369	11	98	30	9,295	13	322	176	113
Corporate	4,552	17	7,134	21	57	7,975	20	75	12	15,730	22	246	120	97
Equity: Corporate	22,838	84	32,231	92	41	38,104	94	67	18	69,355	97	204	115	82
Invested Portfolio Holdings Distribution														
Institutional	16,231	60	19,963	57	23	22,978	57	42	15	38,610	54	138	93	68
General Public	19,704	73	25,484	73	29	30,977	77	57	22	55,770	78	183	119	80
Foreign	13,732	51	20,782	60	51	24,961	62	82	20	48,620	68	254	134	95

of the respective totals have been on the decline. This trend should lead to greater participation by the public and the foreign investor with respect to bond financings.

The institutional investment position in equities, though modest in relation to the market's total value, has been on the increase. Over the period 1955 to 1962, the annual rate of increase in institutional holdings of equities has been considerably larger than the rate of that of their total assets. Their investments in equities, however, has tended to be dictated by the limitations imposed upon them by legislation and thus essentially have been of a high quality nature. This factor, as noted above, does serve to specifically direct a fairly large portion of their equity investments into those corporations having a substantial degree of foreign ownership so as to prospectively affect foreign dominance. Recent changes in legislation regarding the extent of equity financings held by institutions should at least foster further equity participation.

The changing patterns of holdings of the institutional investor (Tables 2 through 7) reveals that they are fairly active and sensitive traders. Investment policy appears largely to be predicated upon current market conditions as opposed to the widely held viewpoint that policy is largely one of "buy and hold".

Canada's financial requirements for new capital expressed in a debt and equity form in 1970 (see Table 8), will be substantial and, as estimated, will have to, in total, increase some 81 per cent from its level of 1962, or at an annual compounded rate of 7.70 per cent. In light of a prospective period of rapid growth contrasting this period of slow economic expansion, an application of domestic ownership trend based on former years might well prove to be conservative.

If the rate of national savings, particularly in the personal sector, increases at a compounded rate of 8.20 per cent and 9.86 per cent per year respectively, a substantial and noticeably larger proportion of this increased total of debt and equity requirements should be forthcoming from the general public. In addition, the total assets of our financial institutions no doubt will continue to expand and grow at a representative pace. Based on past experience, this should be at least at a rate comparable to the increase in Gross National Savings.

The impact upon the securities markets of the Canada Pension Plan in light of its projected $2.5 billion value in 1970, will likely be most apparent with respect to provincial and provincially-guaranteed bond issues. Such a large amount of money coming into the market for these bonds will tend to exercise a downward pressure on their yields. Offsetting this tendency however, will be the fact that a portion of funds that otherwise would have been invested in this sector will be channelled into other classes of debt financings. This would tend to enhance the demand for these other bonds and similarly cause yields to decline.

The foreign investor will undoutedly continue to be an integral and vital part of an investment structure. Funds must still flow from this sector if the economic expansion envisaged and considered essential by 1970 is to be achieved. Restrictive measures on the flow of such funds cannot but disrupt this desirable supply of capital. Redirection may be more in order than restriction but what undoubtedly emerges is that the institutional investor cannot meet these needs alone.

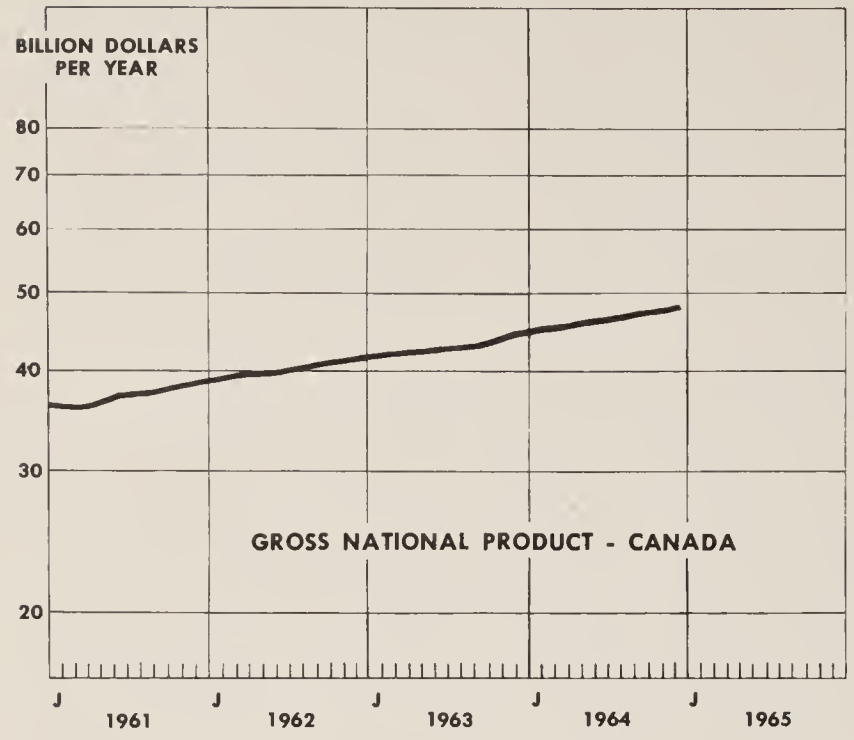
ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

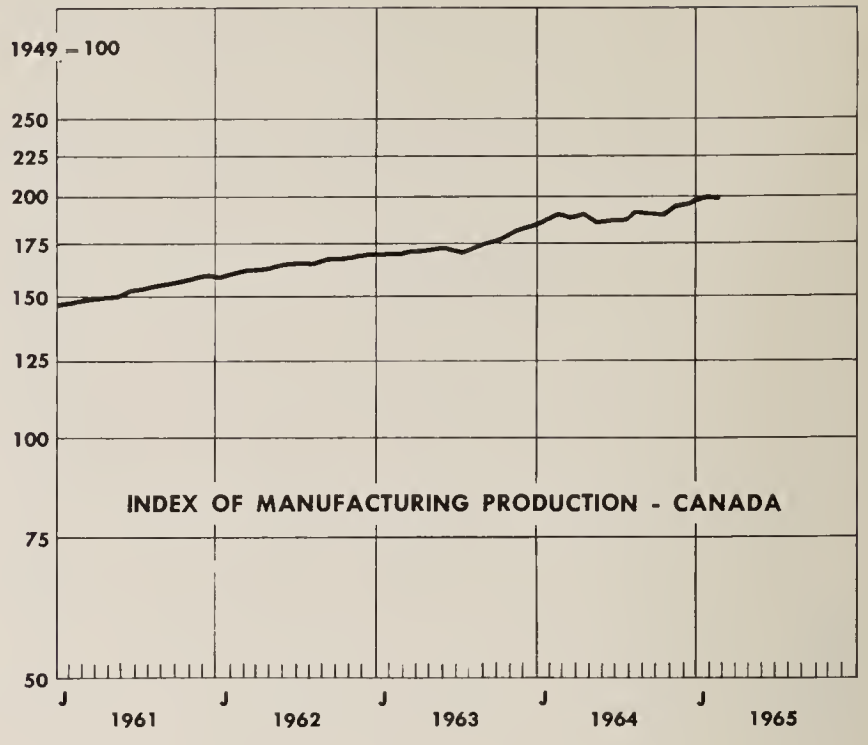
(* Figures for Canada)

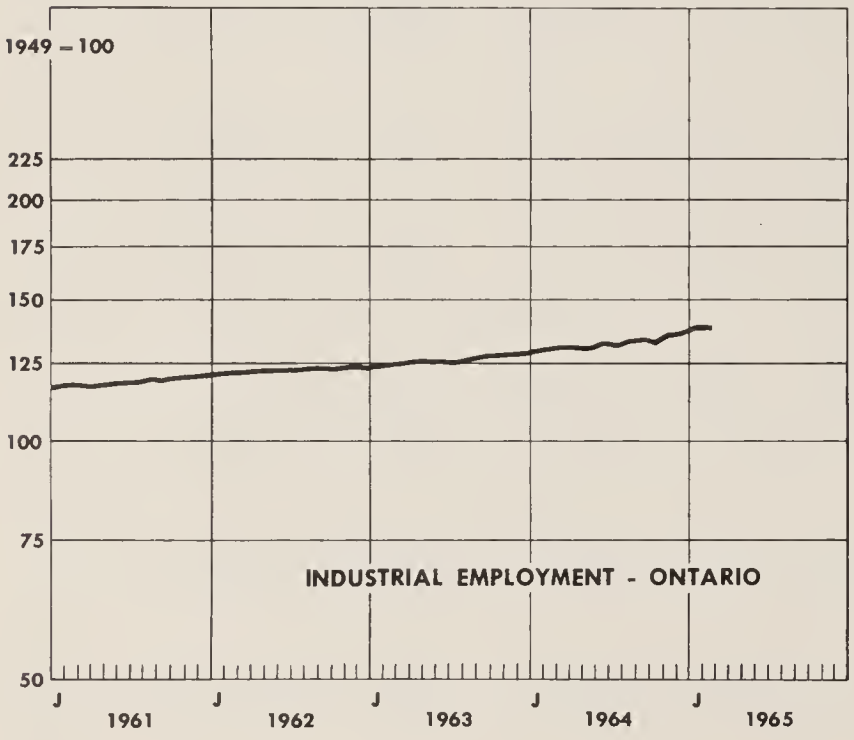
LEADING INDICATORS		1964 March	April	May	June	July	August	September	October	November	December	1965 January	February	March	April
Average Weekly Hours Worked in Manufacturing	(No.)	40.9	41.1	41.3	41.1	40.8	41.1	41.3	41.1	40.8	41.3	41.1			
Business Failures - Number		61	75	80	102	95	81	77	97	59	84	93	73	108	64
Business Failures - Liabilities	$ 000	2,194	6,754	11,965	12,832	10,424	2,738	8,578	8,215	2,895	1,801	3,006	4,588	8,006	4,527
New Orders in Manufacturing*	$ Million	2,698	2,685	2,506	2,549	2,554	2,591	2,603	2,623	2,775	2,770	2,677	2,788		
T.S.E. Index - 77 Stocks	1956=100	143.3	148.6	155.3	158.9	160.5	156.6	169.6	171.2	166.0	164.3	173.3	171.9	169.3	172.1
New Dwelling Unit Starts	(No.)	3,676	4,136	4,087	4,238	5,213	4,626	4,068	5,303	5,962	5,559	4,318	5,798		
Housing Contracts	$ Million	51.5	80.0	56.9	40.1	57.6	44.9	47.7	51.3	71.7	75.7	100.3	49.2	58.7	76.2
Business, Industrial and Engineering Contracts	$ Million	60.1	130.3	104.9	81.5	109.6	97.5	71.8	89.9	93.6	120.3	133.1	76.8	114.3	124.6
Money Supply*	$ Million	16,863	16,986	17,095	17,176	17,346	17,448	17,517	17,391	17,502	17,610	17,855	18,047	18,271	18,575
COINCIDENTAL AND LAGGING INDICATORS															
Gross National Product*	$ Million	45,920	- - - - - - - -		46,684	- - - - - - - -		47,392	- - - - - - - -		48,016				
Total Industrial Production*	1949=100	210.2	214.7	209.4	211.3	210.9	214.3	213.5	214.2	219.8	221.2	223.9	223.8		
Total Manufacturing		186.3	190.4	185.6	185.7	186.3	191.1	190.1	188.8	194.0	194.9	197.9	198.3		
Non-Durables		180.1	185.5	180.9	183.3	181.4	184.9	184.7	186.5	189.9	193.1	191.7	191.5		
Durables		193.6	196.1	191.0	188.6	192.1	198.4	196.4	191.5	198.8	197.1	205.1	206.3		
Mining		317.3	321.0	321.1	329.5	316.0	313.7	308.1	320.8	334.8	334.4	338.2	332.6		
Electric Power & Gas Utilities		396.4	409.3	384.5	403.5	412.2	403.7	416.1	426.9	421.8	434.9	431.7	432.6		
Cheques Cashed in Clearing Centres	$ Million	3,754	3,540	3,705	3,749	3,602	3,620	3,891	3,789	3,600	3,688	3,386			
Retail Trade	$ Million	603	584	621	602	608	611	610	623	618	635	623	604	659	
Labour Income	$ Million	800	798	803	809	814	824	838	832	840	840	857	856		
Industrial Employment	1949=100	132.1	131.5	131.4	132.6	131.7	134.0	134.6	133.4	136.2	136.9	138.1	138.2		
Average Hourly Earnings in Manufacturing	$	2.11	2.10	2.11	2.13	2.13	2.16	2.17	2.15	2.14	2.16	2.19			
Primary Energy Demand - OHPC	BKWH	39.88	41.25	39.33	40.98	41.01	39.79	41.08	41.81	41.29	41.72	42.13	42.86	43.46	42.52
New Dwelling Unit Completions	(No.)	10,184	6,240	3,454	3,095	4,876	3,798	4,519	4,160	2,969	3,013	2,817	4,330		
ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED															
Labour Force (1)	000's	2,495	2,499	2,541	2,620	2,663	2,661	2,559	2,561	2,567	2,563	2,555	2,527	2,535	2,548
Employed (1)	000's	2,389	2,409	2,471	2,532	2,588	2,593	2,504	2,487	2,506	2,487	2,457	2,434	2,456	2,468
Unemployed (1)	000's	106	90	70	88	75	68	55	74	61	76	98	93	79	80
Unemployed as % of Labour Force (1)	%	4.2	3.6	2.8	3.4	2.8	2.6	2.1	2.9	2.4	3.0	3.8	3.7	3.1	3.1
Prices, Industrial Materials*	1935-39=100	257.1	258.8	258.7	257.8	257.3	259.9	258.8	258.0	258.5	256.2	256.7	255.3	256.3	258.5
Domestic Exports*	$ Million	583.1	651.4	670.5	774.7	772.4	674.1	724.0	669.9	706.6	714.2	569.2	538.3		
Imports for Consumption*	$ Million	576.6	704.0	657.7	687.6	637.9	566.2	616.9	636.8	673.4	656.3	559.8	555.0		
Foreign Exchange Reserves*	$ Million U.S.	2,466	2,481	2,509	2,534	2,534	2,576	2,625	2,687	2,743	2,674	2,668	2,649	2,554	2,567

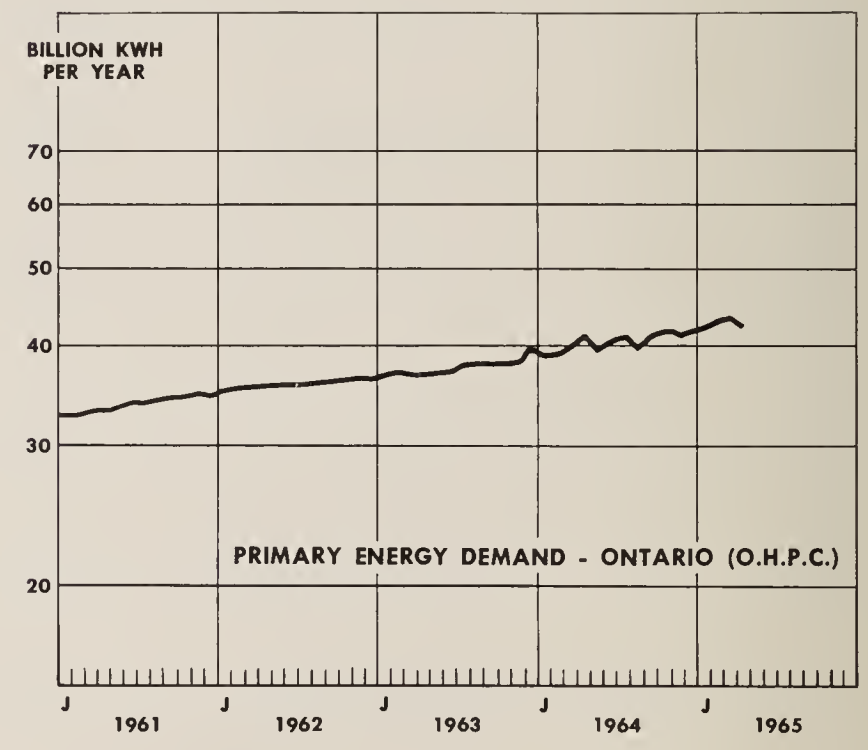
(1) For a few months, the labour reports will not be adjusted for seasonal variation as recent revisions in the statistics have not been completed in the seasonally adjusted series.

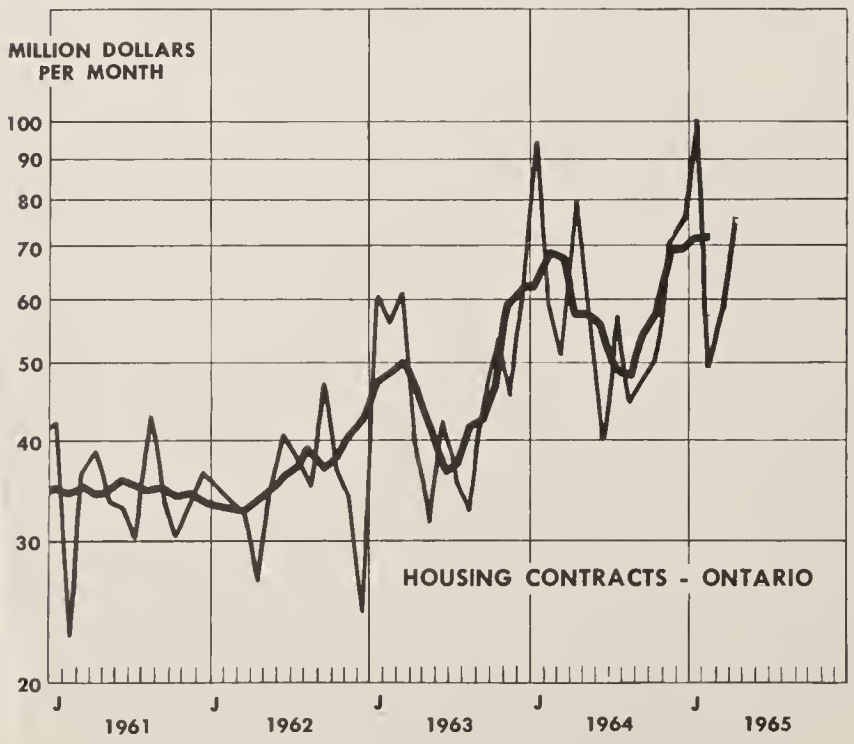
ECONOMIC INDICATORS – SEASONALLY ADJUSTED

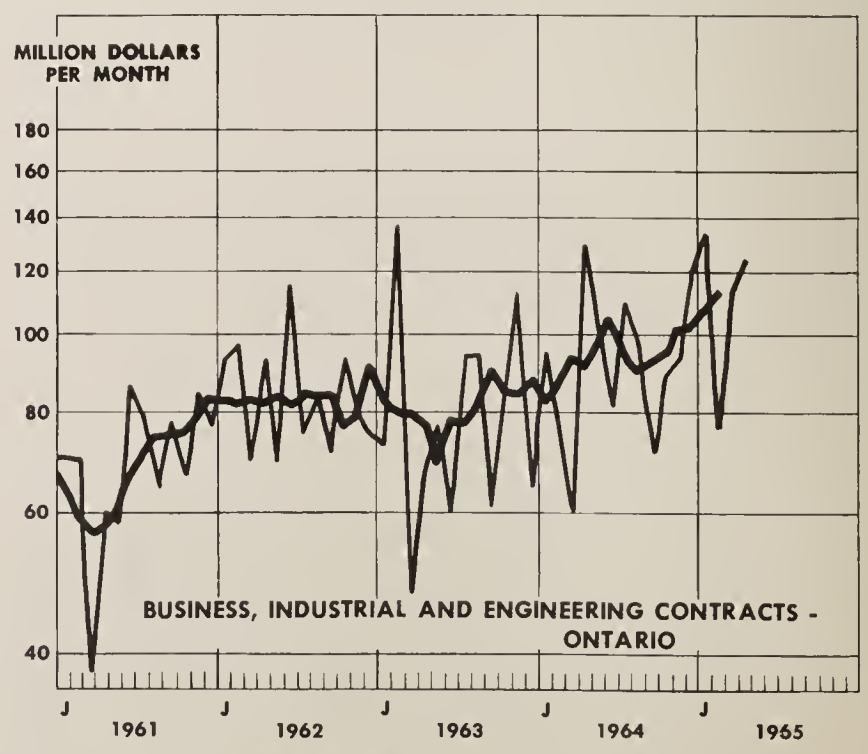




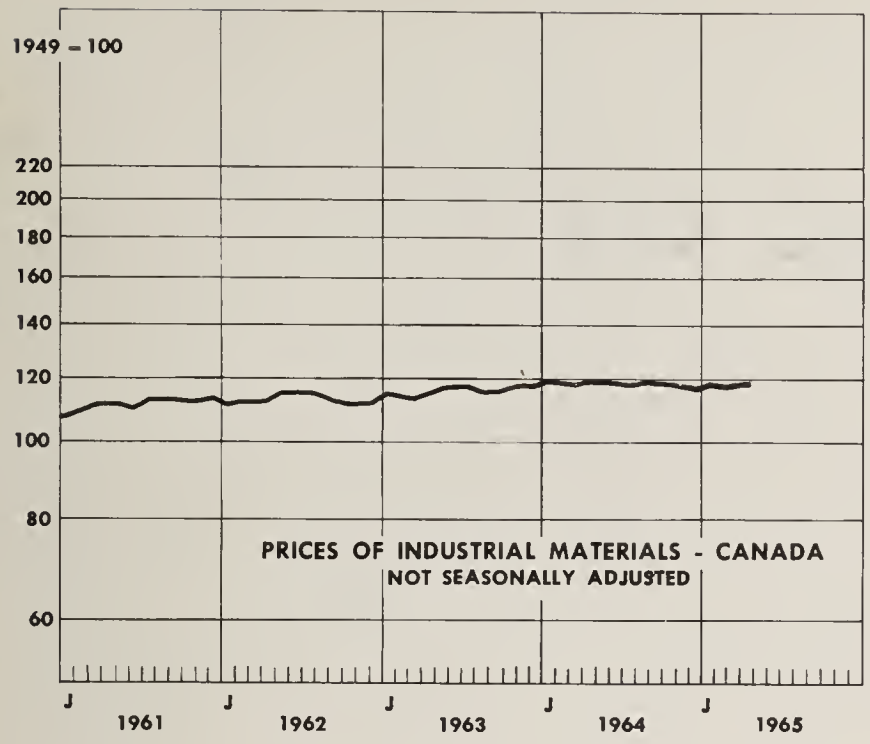


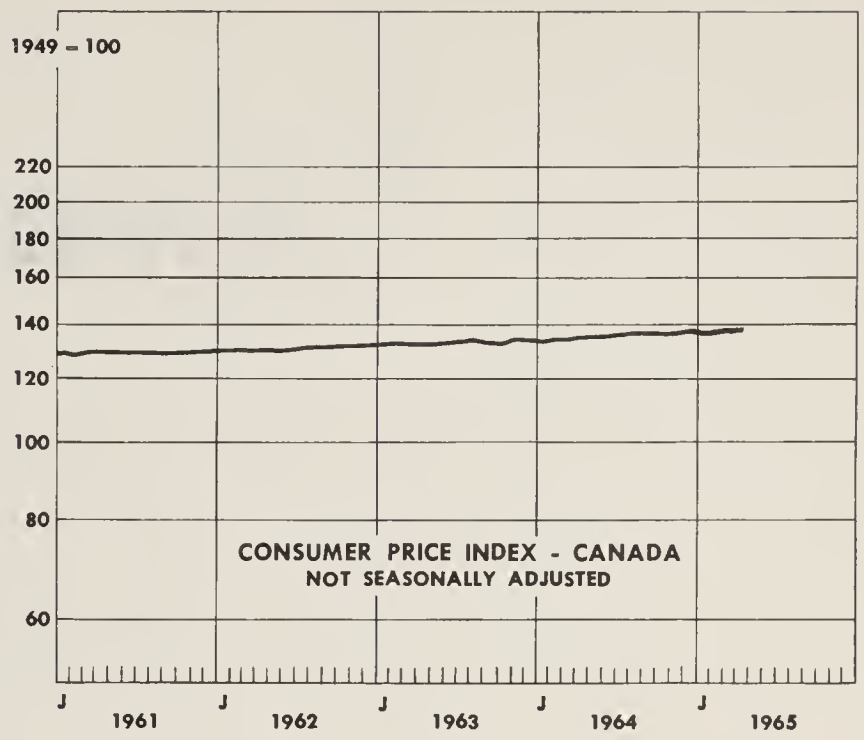


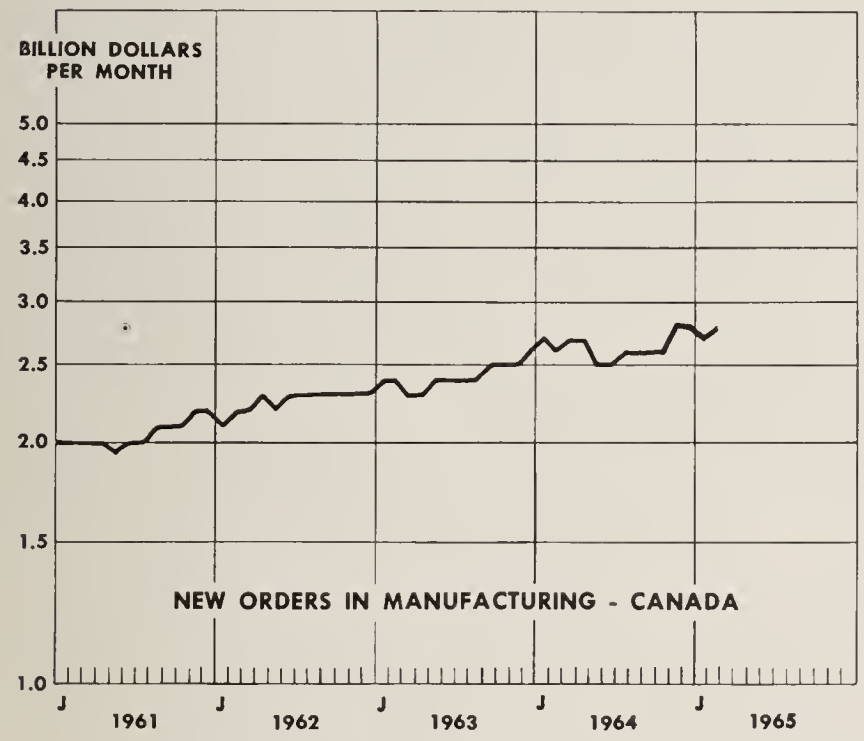


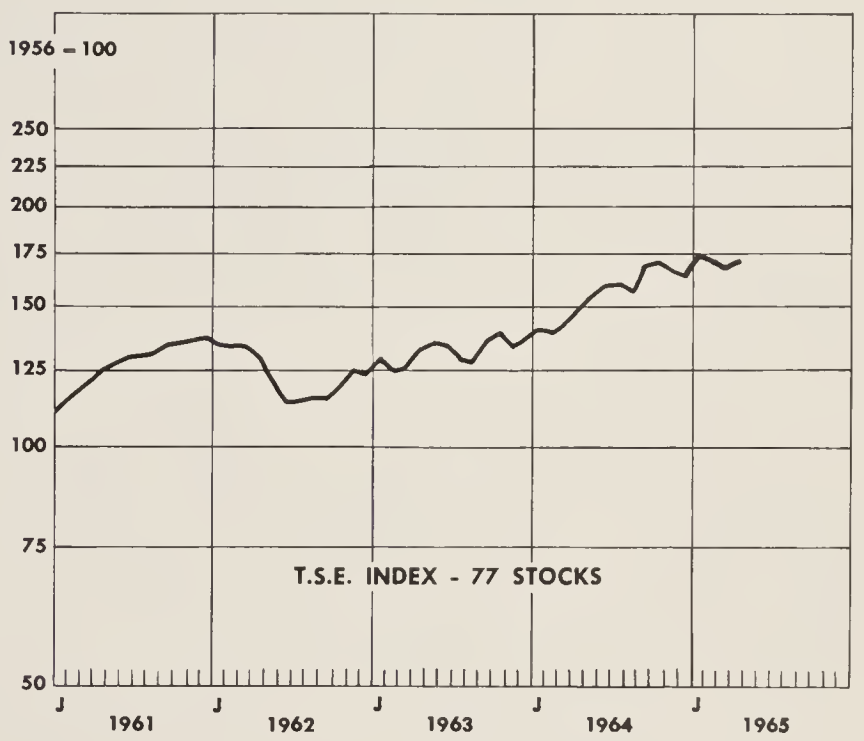


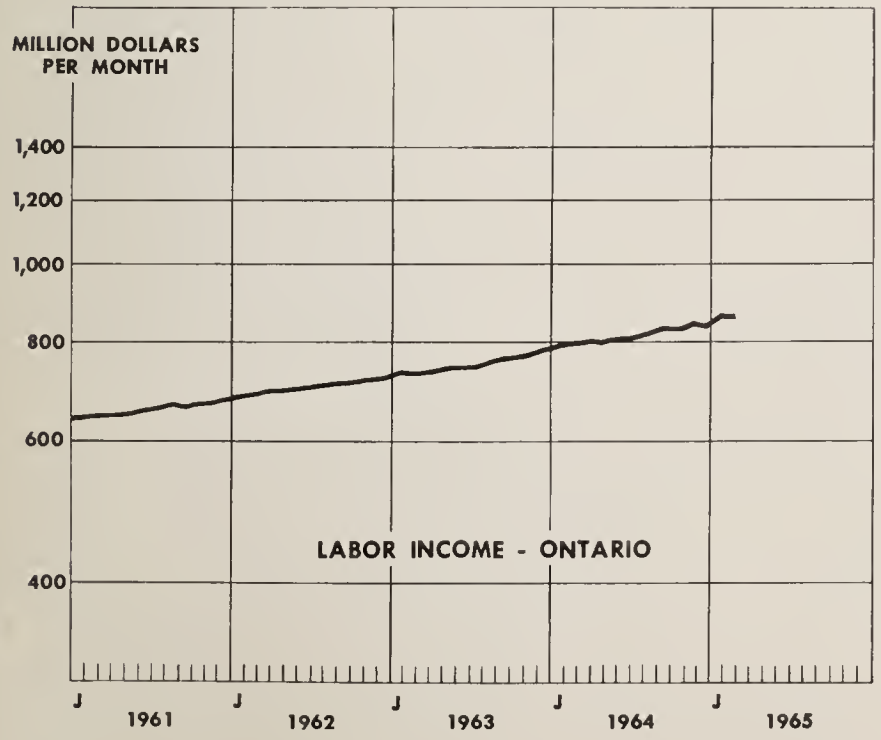
ECONOMIC INDICATORS — SEASONALLY ADJUSTED

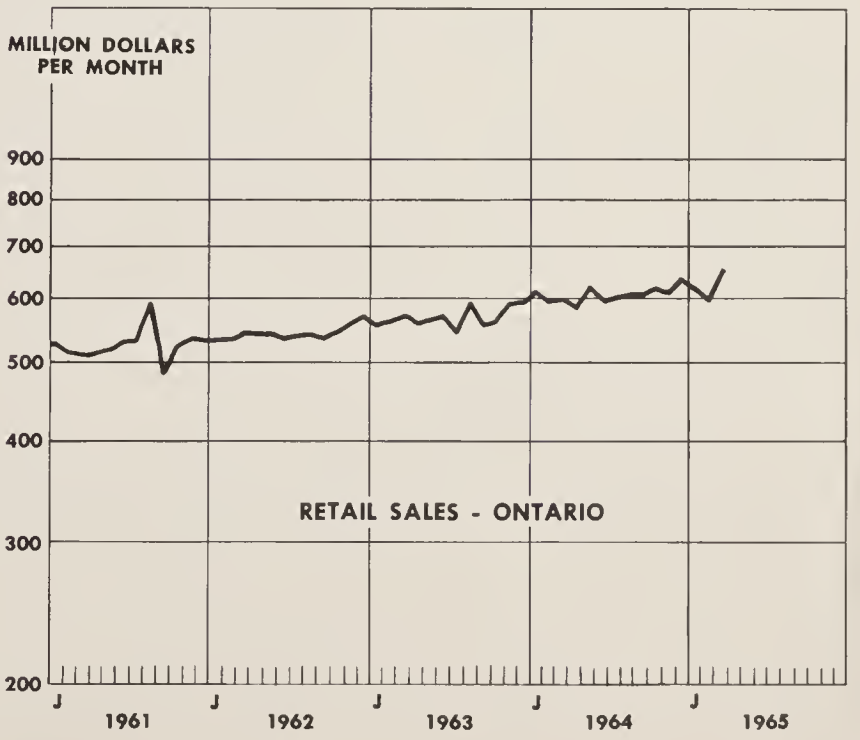












REFERENCE COPY

REFERENCE COPY
AUG 4 1965
LIBRARY

ONTARIO ECONOMIC REVIEW

JUNE 1965
VOL. 3
NO. 2

HA
747
0656
1965
VOL.3
NO.2

DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Hon. Stanley J. Randall, Minister

Stuart W. Clarkson, Deputy Minister

81/758

The Ontario Economic Review *is prepared and edited monthly in the Economics Branch of the Department of Economics and Development and is available free of charge. The review is intended to provide current information on economic activity in Ontario and to act as a forum for the results of research in the public service on matters affecting the Ontario economy. The signed articles reflect the opinions of their authors and do not necessarily represent the views of the Economics Branch. All correspondence should be directed to the Editor,* Ontario Economic Review, *Economics Branch, Department of Economics and Development, 950 Yonge St., Toronto 5.*

THE ONTARIO ECONOMY

AUG 4 1965
LIBRARY

Gross National Product

Recently published DBS figures indicate that the Canadian Gross National Product was valued at $49,676 million for the first quarter of 1965 seasonally adjusted. This was an increase of 3.5% from the previous quarter. Among the components of the Net National Income at factor cost, wages, salaries and supplementary income rose by 3.5%, and military pay and allowances showed a less than 1% rise. Corporation profits (before taxes) increased 1.2%, reflecting high profits in printing, the metal industries (including transportation equipment) and services, partially offset by lower profits in mining, quarrying and oil wells, wood, chemicals, and transportation, storage and communication. Net income of non-farm unincorporated business rose 1.5% as a result of mixed profit trends.

Among the components of the Gross National Expenditure, business gross fixed capital formation showed the highest quarterly increase. At a seasonally adjusted annual rate of $10,028 million, it is nearly 7% above that of the fourth quarter of 1964. New residential construction, non-residential construction and new machinery and equipment increased 3.6%, 9.5% and 6.3% respectively.

Exports of goods and services rose only 1.0% to an annual rate of $10,512 million whereas imports rose 4.5%. Consequently, the foreign trade deficit increased to an annual rate of $1,060 million.

Personal expenditure on consumer goods and services rose 1.2% to an annual rate of $30,588 million. In the goods sector, the rise was mostly attributable to sales of durables, particularly new cars. Spending on services rose more than 2% with increases for personal service, personal care and medical care leading in this category.

Motor Vehicle Production and Sales — 1965

Currently, motor vehicle production in Canada is at an all time high. The most recent production returns indicate that by June 26, some 391 thousand cars and 77 thousand trucks were produced. Over the comparable period last year, this is a total gain of over 10%. If the present trends continue, total 1965 production is likely to exceed 600 thousand cars and 120 thousand trucks.

The following table lists motor vehicle production in Canada in the January to May period for the major companies. The figures were supplied by the Motor Vehicle Manufacturers Association.

CAR AND TRUCK PRODUCTION

	5 Months 1965	*5 Months 1964*	*% Change*
American Motors	16,748	15,905	5.3
Chrysler	49,671	50,233	-1.1
Ford	94,679	95,256	-0.6
General Motors	212,758	178,619	19.1
Internat'l Harvester Trucks	6,150	6,146	0.1
Studebaker	9,494	6,203	53.1
Volvo	1,373	1,001	37.2
Total All Cars	327,287	298,909	9.5
Total All Trucks	63,586	54,454	16.8
Total All Vehicles	390,873	353,363	10.6

Despite a strike lasting from January 26 to March 7, production at the Chrysler plants showed a decline of only 1% from a comparable period last year. This was achieved by going on two shifts on April 12. Though many of the new employees were relatively unskilled in car assembly, the company was producing more than 40 per hour on each shift within a month. The June figures for Chrysler pro- assembly of 14,769 cars and 2,031 trucks, the company showed an increase of over 48% from June, duction reflect the increased employment. With the 1964. As a result, Chrysler production of cars and trucks for the first *six* months of this year shows an increase over last year of nearly 8%.

The fractional decline in the production of Ford vehicles during the first 5 months was due to a ten-day strike in January. At present, assembling facilities are operating at full capacity. With the completion of a $25 million truck plant, Ford intends to spend an additional $13 million converting existing truck assembly plant and equipment to that required for cars.

Sales of motor vehicles in Canada showed mixed trends in the first four months. Car sales numbered over 232 thousand of which 42% were sold in Ontario. For the province, this is a gain of 8% from the comparable period last year.

On the other hand, the sale of commercial vehicles showed a fractional decline on the national level. Other provinces still show increases whereas the large increases in Ontario sales took place last year. In the January to April period this year, some

12,500 trucks were sold in Ontario, resulting in a decline of 9% compared to 1964.

As might be expected, Canadians are paying more this year for passenger cars. In April, the average retail values of cars sold in Ontario and in Canada were $3,220 and $3,203 respectively. Both these figures were increases of 2.1% from April 1964. The retail sales value of commercial vehicles declined 2% in Ontario, reflecting more than proportional decreases in the sales of large vehicles.

The financing of new passenger car sales appears to be similar to last year. Sales finance companies backed approximately 25% of the new car sales in Ontario. The amount of financing per car, however, has increased slightly. Supplying an average of $2,687 in March 1964, finance companies have increased credit to an average of over $2,790 this March.

A substantial amount of new car financing is provided by chartered banks. The balance of personal loans not secured with bonds or stocks stood at $1,848 million in March, 1965. Though this is an increase of over 23% from a year ago, it is impossible to determine how much is attributable to car financing.

On the other hand, the financing of truck sales in Ontario has changed somewhat during the last twelve months. In March, 1964, approximately 15% of the new commercial vehicles sold were financed through sales finance companies, whereas a year later this proportion increased to 17%. The dollar value of these loans increased substantially – from $2.2 million to $3.3 million, an increase of 50%.

Construction

Seasonally adjusted, Ontario housing contracts were valued at $50.2 million in May. This was a $26.0 million decline from the high level of the previous month. Business, industrial and engineering contracts in May were valued at $119.5 million, a slight drop from the April level.

Residential construction in May was particularly active with starts made on some 6,400 dwelling units in Ontario. In the first five months, starts numbered 16,596, an increase of 10% over the comparable period in 1964. Showing an even greater increase was the number of dwelling units under construction, up 22% this May compared to last year. In Metro Toronto alone, a record 25,600 dwelling units were under construction.

In Ontario, recently announced large contracts of $1 million and over totalled $80.7 million in May. Some of the significant awards are listed below.

LARGE CONSTRUCTION AWARDS PLACED RECENTLY IN ONTARIO

Location	*$ Million*	*Description*
Ajax	3.6	Apartments
Cornwall	14.5	Plant and offices
Hamilton	3.5	School
Kitchener	1.3	Motel
London	2.5	University building
Oshawa	1.0	Auto plant addition
Ottawa	9.1	Apartments
Penetanguishene	1.2	Hospital expansion
Sudbury	1.4	High school
Toronto	15.7	Apartments
Windsor	3.4	Hotel
York Twp.	5.5	Film plant
Various locations	5.2	Provincial highways

Employment and Income

In May, the Ontario Labour force numbered 2,595 thousand of which 786 thousand were women. This increase of 54 thousand from May, 1964, can be attributed to growth in the population of persons aged 14 and over since the participation rate (labour force as a proportion of this population) was 57% in both cases.

In a twelve-month period, the number employed increased substantially. Although there has been an expected small decline in the agricultural sector, total employment increased by 65 thousand. Consequently, unemployment has been reduced from 70 thousand in May, 1964 to 59 thousand this May. This is a 2.3% unemployment rate comparing favourably with a 4.5% rate for the other provinces.

On a seasonally adjusted basis, labour income in Ontario totalled $877 million in March, 1965. This was a considerable increase (2.2%) from February due mostly to increased earnings per person – i.e. the labour force rose less than 1% in that period.

Finance

Canadian monetary conditions tightened slightly during May as new borrowings continued to be at a high and slightly increased volume. An indication of the increased pressures on the market was that of the day-to-day loan rate which opened the month at a level of 3¾% and closed at 4%.

Fractional price losses were recorded by most outstanding issues traded on Canadian bond markets during May. On relatively low volume of trading, all sectors shared in this decline. On average, short and medium-term issues registered losses up to 25 cents while long-term issues had overall

declines ranging upwards to a full point on a $100.00 bond. Prospects of higher borrowing costs in the near future, a forecasted slow-down in the rate of business expansions, and a continued high rate of new Canadian bond financings have contributed to this downward adjustment in prices and increase in yields. During the first five months of 1965, new Canadian bond financings, at $1.80 billion, were 20.1% higher than last year's comparable total of $1.50 billion.

The trend towards higher equity prices in most industrial sectors of the Canadian stock markets was brought to an abrupt halt at about mid-month. After the attainment of new all-time closing highs at that time, extensive selling pressures were then encountered and subsquently prevailed for the duration of the month. The Toronto Stock Exchange Industrial Index, after opening the month at a level of 174.82, rose to a high of 178.05 on May 14th but declined relatively steadily thereafter to close the month at a level of 174.63, down 3.42 points from the month's high and 0.19 points on Index over the month. The market's selloff was apparently triggered by a statement made by U.S. Federal Reserve Board Chairman, William McChesney Martin, wherein he cited what he termed disquieting similarities between conditions in the U.S. economy now and just before the 1929 crash as well as concern over the hostilities in Vietnam.

Canada's foreign exchange reserves (official holdings of gold and U.S. dollars) declined by U.S. $67.8 million during May to close the month at a level of U.S. $2,498.7 million.

During May, the Canadian dollar fluctuated in a narrow range between 92.59 cents and 92.70 cents in terms of U.S. funds and closed the month at 92.63 cents, unchanged from the previous month's closing level.

THE GROWTH AND DEVELOPMENT OF THE MOTOR VEHICLE INDUSTRY IN ONTARIO

C. Peter Honey
Economist, Economics Branch
ONTARIO DEPARTMENT OF ECONOMICS AND DEVELOPMENT

A revolution may be defined as a sequence of related events or occurrences following one another in such a manner as to result in profound qualitative and quantitative changes. The Canadian Automotive Revolution began 60 years ago in Ontario and we are today still living in the transformation period. The automobile has influenced our modes of transportation, our cities, our social relationships, and indirectly our government.

The Canadian Automotive Industry[1] suggests that there are seven factors of prime importance determining the demand for motor vehicles: personal disposable income, population growth, credit, scrappage, prices and taxes, operating costs, roads and highways. These demand components are almost a catalogue of the economic factors influencing motor vehicle production.

Canadian population doubled in the first 30 years of this century and grew 75 per cent between 1931 and 1961. Seventy per cent of Canadians now live in urban areas. In 1926 there were only 50,000 miles of surfaced highways and rural roads in Canada. By 1962 there were over 478,000 miles of roads and streets – one-fifth of them located in Ontario.

Since the end of the Second World War there has been a significant growth in Canadian personal income[2]. Combined with population growth this means that more Canadians, both absolutely and relatively, are able to afford consumer durables. Canadians spend about 90 per cent of their personal income. Of this 90 per cent, it is estimated that 11 per cent goes to consumer durables which are very strongly influenced by automotive purchases.

In 1964 total Canadian production of motor vehicles amounted to over 668,000 units and brought to just under 12 million the number of cars and commercial vehicles produced in Canada since 1904.

---

[1] Ottawa, 1956, p.20 (Study for Royal Commission on Canada's Economic Prospects).

[2] *Per caput* personal income:

	Ontario	*Canada*
	$	$
1945	914	755
1963	2,039	1,736

There are now over 6.4 million vehicles registered in Canada — an increase of one-fifth in the past decade alone. It is estimated that on average there is one passenger car per household in Canada (10 per cent have two) and that one Canadian in three is a vehicle owner. Canadians in 1963 burned 3.7 billion gallons of motor fuel and provided provincial treasuries with $717 million from fuel taxes and motor vehicle registrations.

Over 95 per cent of Canadian automotive production is concentrated in Ontario.[3] The motor vehicle industry of Ontario has probably done more to affect the daily lives of millions of Canadians than any other single influence emanating from the province — be it economic, political or social.

In 1961 Ontario motor vehicle manufacturers employed over 20,000 people and shipped goods worth nearly $850 million to rank first among Ontario manufacturing industries. Motor vehicle parts and accessory manufacturers, also employing over 20,000, ranked seventh in shipments while rubber tire and tube manufacturers ranked sixteenth. Taken together these three industries shipped 11.4 per cent of Ontario's total manufacturing output and employed 8.1 per cent of the manufacturing labour force.

There are several reasons why the Canadian motor vehicle industry is so heavily concentrated in Ontario. The techniques of automotive production established early in the history of the industry meant that large amounts of capital had to be invested in the fixed plant and equipment necessary for mass production. Thereafter, the industry tended to become immobile as a function of both the high cost of re-investing and the essential linkages developed with local suppliers of skilled labour and component parts. Regionally, motor vehicle production has remained almost exclusively an Ontario phenomenon. Prior to World War II, the industry did attempt to decentralize from its Southern Ontario operations, but plants across the nation soon proved uneconomic and were closed. In short, the industry once it became a mature complex found that success tended to root it ever deeper in Ontario's industrial structure.[4]

Another explanation of concentration lies in the sensitivity of the automobile as a consumer durable to swings in demand. Only large companies with extensive financial resources can ride out depressed periods and still be financially able to modernize plant and operations in the light of changing conditions. The history of the automotive industry in Ontario reveals a continually shrinking margin for the marginal firm. In 1930, 70 per cent and in 1960, 98 per cent of automotive output was controlled by the "Big Three" (Ford, General Motors and Chrysler).

Both in terms of the number of firms and the geographic concentration of the industry, the key issue is volume. Efficient motor vehicle production necessitates large, complex and specialized production and assembly machinery. As a result, unit costs tend to fall only over large production runs. This fact has provided the drive to concentrate production in relatively large plants where economies of scale are attainable.

Not only is Ontario the producing centre of the Canadian industry, it also represents a very considerable segment of the market. One-third of Canada's motor vehicle registrations are in Ontario and the province provides a regular market for over 40 per cent of new vehicle production. This high degree of motor vehicle ownership is in part a reflection of the fact that Ontario's population and personal disposable income are the highest in Canada and in part a reflection of lower vehicle prices owing to geographical and transportation factors.

How and why did Ontario's motor vehicle industry reach its present stature?

As early as the last quarter of the 19th century Ontario possessed a flourishing carriage industry. The Dominion Census of 1871 records that Ontario's carriage industry was the province's sixth largest employer providing work for nearly 4,800 people. In the same year the industry turned out goods worth over $3 million to rank twelfth among Ontario manufacturing industries. Even at this early date location played an important role. Markets were not unnaturally restricted to the more populous urban and rural areas of Southern Ontario where roads were at least present, if only in name. The carriage industry was also restricted to the south of the province by the boundary of the Canadian shield. Ontario's hardwood stands, the prime source of raw

---

[3] The production of Volvo cars in Nova Scotia is as yet insufficient to affect the above. The recent decision by General Motors to decentralize its operations by opening a large vehicle plant in Ste. Therese will, in the long run, materially alter the traditional concentration of the industry in Ontario.

[4] "Important factors militating against geographic decentralization at the present time are limited volume, the seasonal pattern of automobile demand and the concentration of parts suppliers in the general vicinity of the existing plants. It is questionable whether decentralization . . . was ever well advised and it seems certain that the industry's pre-occupation with costs will combine with the factors mentioned above to prevent any similar move in the foreseeable future." *The Canadian Automotive Industry,* pp. 49-50. The above was written in 1956. See note [3] *supra.*

material for the industry during the 19th century, were found in South-Central Ontario.

During the period 1870-1910, when the concept of a combustion-powered carriage was being transformed, in Europe and the United States, from a mere vision to an actuality, important transformations of a different nature were occurring in Ontario which would set the stage for the introduction of an automotive industry at the turn of the century.

One of these transformations had to do with another branch of the transportation industry – the railways. By 1915 Ontario's railway construction had led to a pattern within which Toronto had emerged as the hub of a radial network superimposed on an older system of inland lines from the lake ports. Railway over-expansion coupled with the economic decline of many smaller inland centres led to rail line abandonment and further inland stagnation. Thus by the First World War, Ontario's railway network mirrored the enhanced position of the larger urban centres as market and industrial foci.

Another transformation had to do with the rapid pace of industrialization in Canada and Ontario in the late 19th century. Rostow[5] identifies the period 1896-1914 as a discrete "take-off" into industrialism in Canada. Recent work, while confirming that the period "was decisive for successful Canadian growth into an industrial economy,"[6] also suggests that the last three decades of the 19th century can no longer be regarded as a period of secular depression. In fact:

> "the growth of the manufacturing sector and its structure indicate that the last three decades of the nineteenth century were periods of substantial growth, increasing specialization in industry geographical location, and increasing specialization in the production of firms."[7]

The factory system made deep inroads upon Ontario's traditional small shop – especially in the cities – and average manufacturing establishment size grew significantly. These changes in manufacturing, combined with urbanization and changes in transportation, tended to reduce the growth opportunities of smaller centres. Larger centres, possessing pools of skilled and unskilled labour and the economic linkages necessary for the assembly of raw materials and the production of intermediate and final goods, were thus well suited to exploit the manufacturing and distribution potentialities of wider and wider economic hinterlands. These earlier developments meant that when the factory system and mass production spread to the automotive industry, as they did after 1910, the small carriage works-*cum*-auto producer in the small centre would lose out.

Not all Ontario towns fell prey to the larger centres such as Toronto, Hamilton and Windsor. While Canada's first auto plant was established in Windsor in 1904 by a group of Canadian businessmen who obtained the rights to produce and distribute Fords in the British Empire outside the United Kingdom, Oshawa moved quickly to help one of its older industries weather a difficult transition period. The McLaughlin carriage factory in Oshawa burned down in 1899 and the town offered a grant of $50,000 to the company to rebuild. This timely action undoubtedly aided the McLaughlin carriage works to redirect its later production to motor vehicles. In 1907 the company began producing automobiles using imported Buick engines and McLaughlin-built chassis. By 1915 McLaughlin had affiliated with Chevrolet and three years later the associated Oshawa operations became General Motors of Canada.

The auto industry of Southwestern Ontario grew apace. Ford in its first year produced 117 vehicles and in 1908 introduced the first Model "T" which scored an immediate success. Everett-Metzger-Flanders established at Walkerville in 1909 and became Studebaker in 1911. International Harvester, an agricultural implement producer, took over the Chatham Wagon Works in 1911 but did not produce its first truck until 1920. Ironically, the first automobile ever built in Canada was an electric carriage produced in Toronto in 1893 but Toronto never became a major auto producer.[8]

The structure of the Ontario motor vehicle industry became evident at a very early date as an extension of the American industry largely confined to the assembly of imported components with locally-produced bodies. The importance of Ontario's large carriage and wagon industry lay initially in its ability to adapt to auto body production. This was both good and bad. It meant that numerous attempts were made over the breadth of the pro-

---

[5] Rostow, W. W., *The Stages of Economic Growth,* Cambridge, 1960.

[6] Bertram, G. W., "Economic Growth in Canadian Industry, 1870-1915: The Staple Model and The Take-Off Hypothesis." *CJEPS,* 29/2, p.161. It was during this period that Ontario's iron and steel, motor-vehicle and hydro-electric power industries became firmly established.

[7] Bertram, *op. cit.,* p.161.

[8] At one time or another several motor vehicle manufacturers have appeared and disappeared from the Toronto scene. Metro Toronto today, however, has the highest concentration of motor vehicle parts manufacturers in the province.

vince to produce motor vehicles.[9] It soon became apparent, however, that motor vehicle production would become concentrated among the relatively few producers who had ready access to American research, design, and engineering facilities. Moreover, American industry as a function of both size and resources could turn out, even at an early date, a large volume of complex but relatively low-cost automotive components such as engines, transmissions, stampings and the like. Ontario's natural production advantage lay in the outer shell while the United States supplied the working parts. As the automobile revolution quickened in Canada – in 1917, 93,810 units were produced – Ontario firms became better able to supply component parts. However, these were often of the relatively simple bumper and spring variety.

As early as 1912 all-steel bodies were introduced, but owing partly to novelty, and partly to cost, most bodies remained wood framed. Indeed, it was not until the mid 1930's that all-steel bodies came into general use in Canada. This is partly explained by the fact that during the 1920's, when the move to all-steel bodies was becoming general in the United States, no Canadian iron and steel producer turned out suitable sheet steel for body stampings.

In 1914 the assembly line technique of mass production was introduced in Canada. This permitted the rapid assembly of standard components and, when combined with efficient materials handling, meant that the Canadian industry was committed within a decade of its inception to the volume production of low-priced, mass-market cars.

Accustomed as we are to today's constantly changing body styles and high-powered engines, we may forget that many of the recent automotive advances (disc brakes, tubeless tires, alternators, cheap automatic transmissions) have not represented substantive change. Most of the major automotive innovations that literally put the "car on the road" occurred fairly early in automotive history – self-starter (1911), balloon tire (1922), four-wheel brakes on "popular" makes (1924), safety glass (1926), synchromesh transmission (1928), V-8 engine (1932), and an automatic-type transmission just prior to World War II. Since then most automotive developments have merely been variations on a known theme.

The motor vehicle industry in Canada, similar to other secondary industries, has long enjoyed a moderate degree of tariff protection. However, the 35 per cent tariff which motor vehicles originally inherited from the carriage industry was hardly in keeping with the fact that Canada had neither the established manufacturing base nor the domestic market potential to support an independent industry. In the more mature economies of the United States and France, for example, the going duty rate was 45 per cent. Even Great Britain in 1915 turned to a 33⅓ per cent rate to protect her home industry. The net effect of the Canadian automobile tariff was to encourage the establishment of Canadian subsidiaries of American companies wishing to tap Commonwealth markets – of which the Canadian was the most important.

The combined impact of the First World War, the British preferential tariff, and the rapid acceptance in Canada of the motor vehicle for both business and pleasure served to bring about spectacular growth. As early as 1909 exports of domestic vehicles may have exceeded imports. In 1917 the industry produced 93,810 units compared with a total of approximately 135,000 for all previous years. Total motor vehicle production by the mid-1920's had risen to well over 200,000 units and exports were assuming a substantial importance to the industry. Major export markets were found within the British preference tariff area. In 1923 over 84 per cent of exports went to five major Empire markets and exports claimed 33 per cent of total production.

During the 1920's increasing political pressure for the free import of cars brought about the tariff changes of 1926 which reduced the duty from 35 per cent to 20 per cent on cars valued under $1,200 and to 27½ per cent for cars valued over $1,200. The impact of such sweeping reductions was not lost on vehicle manufactures and immediate pressure was brought by the industry to "improve" the tariff. Since production and assembly in Canada were now materially less attractive, a complex and clumsy system of duty drawbacks was instituted to ensure a 50 per cent "Empire Content". Buoyant demand, at home and abroad, continued to stimulate the industry until the depression. 1929 was a peak production year – 262,000 units – and a peak export year – 101,000 units.

With the great depression came stagnation. Exports declined both absolutely and relatively as foreign markets were lost through rising levels of protection and fluctuating exchange rates. Domestic demand fell precipitously and by 1932 total production had fallen to about 60,000 units or 24 per cent

[9] Among them the following: the Graham at Ottawa, the Atlas at Brockville, the Galt at Galt, the Durant at Leaside, the National and Schact at Hamilton, the Reo at St. Catharines, the Amherst 4 at Amherstburg, the Superior at Petrolia and the Gray-Dort at Chatham.

of the 1929 level and approximately 15 per cent of industry capacity. This production loss of 76 per cent in the early years of the depression resulted in an employment drop of 54 per cent. Both declines exemplify the extreme sensitivity of durables-producing industries to falling levels of demand. In contrast, the employment index for all manufacturing industries in Canada declined 31 per cent while the value of manufactures declined 50 per cent. By the same token, the demand deferral, which brought about the decline over the period 1930-1933, was one of the enabling factors bringing rapid recovery in auto production after 1933. Between 1933 and 1937 production values increased by some 220 per cent. Other enabling factors were tariff revisions in 1931 and a production agreement with Ford of Canada in 1933 to produce all Empire V-8 car requirements here.

Further tariff changes in 1936 introduced a general duty of 17½ per cent which could rise to 22½ per cent if imports became a major threat to domestic production. The heart of the revision was a sliding-scale Empire Content scheme aimed at permitting manufacturers the free import of parts not made in Canada in return for reaching agreed production levels. The tariff revisions were important in that they explicitly recognized that volume production was essential in the Canadian industry. Ironically, as a result of both the tariff changes and the fact that the depression forced some firms out of business, imports rose steadily between 1937 and 1942.[10]

The demand for mechanized transport and armour brought about by the Second World War was large, continuing and crucial. Canada virtually kept the Commonwealth armed forces mobile on some form of wheeled or track vehicles. In the peak year of 1942, 216,000 vehicles of over 100 different types were produced. Vehicle production *per se* declined after 1942 but spares and other types of equipment kept production at record levels. Between 1939 and 1945 approximately 816,000 mechanized transport vehicles and over 50,000 armoured fighting vehicles were produced.

Peacetime reconversion in the industry was spurred by a pent-up and liquid demand for all types of pleasure and commercial vehicles and output was limited only by the availability of men and materials. Not unexpectedly, imports temporarily rose sharply in the immediate post-war period but by 1948 the 1929 production peak was surpassed when 264,000 units were turned out.

The large and continuing demand for commercial vehicles and passenger cars continued until the mid-1950's largely as a result of backlog demand, the Korean War, and an expanding market associated with a rapidly growing population enjoying higher levels of income. One restraining factor was the special excise tax on cars which from 1949 to 1955 bounced around between 10 per cent and 25 per cent. During the period Studebaker moved to Hamilton and recommenced Canadian production while Ford moved its major assembly operations from Windsor to Oakville.

One of the areas of great concern to Ontario producers of motor vehicles and parts has been the tremendous rise in the level of automobile imports in the post-war period. It was expected that the tariff of 1936 would protect and enhance the ability of the industry and its suppliers to produce vehicles in Canada. It was not expected that a larger Canadian or Empire content of up to 60 per cent would result in a smaller share of the available market for domestic producers.

Part of the trouble seems to have arisen from the increasing popularity of the automatic-type transmission in the 1950's. This is a complex and expensive component where economical production volume exceeded Canadian requirements. As early as the mid-1950's, 40-50 per cent of new cars shipped to dealers were equipped with automatic transmissions. It became increasingly more difficult for Ontario producers to meet the content requirements necessary for duty-free parts importation and still remain price competitive when such an expensive component had to be brought in from the United States in large quantities. This difficulty, combined with a temporary saturation of demand for the relatively expensive North American-type car, meant that, after 1955-56, lower-priced imports gained an increasingly larger share of the market in Canada. By the time the industry had moved to combat the trend, with the development of the "compact" in 1959, imports had captured one-third of the market. In 1955 Canadian passenger car production peaked at 375,000 vehicles. By 1958 production had dropped to 298,000 units and by 1960 recovered to 326,000 units. Over the same period (1955-60), total vehicle imports rose markedly from 58,000 to 180,000. Rising imports were accompanied by falling exports. Dur-

[10] Studebaker, Hudson and Packard discontinued Canadian production "and actually succeeded in obtaining a larger share of the market with vehicles imported from the U.S. than they had formerly obtained with Canadian produced vehicles . . . In addition, a number of other firms were compelled to discontinue automobile manufacturing during the depression including Graham-Paige (in 1935), Willys-Overland (1933), Durant Motors (1930), Dominion Motors (1933) and Hupp Motor Car Corporation (1939)." *The Canadian Automobile Industry*, p.8.

ing the period 1946-60, Canada was a net exporter of vehicles in only six years and from 1954 on was continuously a net importer.

The plight of the industry was recognized in 1960 with the appointment of a one-man *Royal Commission on the Automotive Industry* under Prof. V. W. Bladen. The Commissioner found, despite the fact that 98 per cent of Canadian production was then carried on by the "Big Three", that greater volume and larger economies of scale were essential for continued Canadian vehicle and parts production.

Design and research expenditures are large and continuing costs in North-American car production. Canadian companies have to a great extent relied on their American parents for this aspect of operations simply because the cost is prohibitive here. This reliance has very important implications. If vehicles are designed and engineered in the United States, so are the component parts of which the car is the finished product. The frequent model changes and model proliferation common to North-American motor vehicle production has meant that Canadian parts suppliers have often suffered in their economic struggle to supply the manufacturers. All too frequently, the parts specifications necessitate specialized equipment and machinery that are beyond the ability of the parts industry to acquire and operate economically at low volume. As a result, low-cost, high-volume domestic parts production is often unobtainable and Ontario's vehicle producers have probably undertaken more parts manufacturing directly than they would have otherwise. In sum, Canadian-produced cars suffer from higher costs attributable to diseconomies brought about in the achievement of the tariff content ruling and the necessity of importing large quantities of American parts. Canadian labour rates are lower than American but total labour costs are higher since our limited volume often denies the advantages of more efficient production machinery.

Following the plea of the Commissioner for greater specialization and streamlining in the industry, the Canadian Government in 1962 instituted a plan to boost the export of Canadian-made parts by allowing duty-free imports of automatic transmissions and parts, and stripped engines — provided the auto company exported an equivalent value of Canadian-made auto parts. In 1963 this was extended to cover all auto parts on a dollar-for-dollar basis regardless of exporting source, whether vehicle manufacturer or parts supplier. In 1960 Canada exported auto parts worth some $3.7 million to the United States. By 1963 this had risen tenfold to $36.3 million and some parts manufacturers were beginning to reap economies of scale. However, parts imports from the United States rose from $316.8 million in 1960 to $554.7 million in 1963.

In 1961 the 7½ per cent excise tax was removed. In 1962, as a result of the exchange crisis, a temporary 10 per cent tariff surcharge was applied to imported vehicles. This was removed in 1963. These factors combined with the devaluation of the Canadian dollar in 1962 helped the Canadian automotive industry to expand export sales and increase its share of the domestic market.[11] The cyclical upswing in the economy since 1961, however, has been the prime mover advancing motor vehicle production considerably over the lows of the late 1950's. In 1960 close to 400,000 units were produced. By 1964 production had climbed to 668,000 units. To date in 1965, 480,000 vehicles have been turned out.[12]

The Canadian automotive tariff was designed to provide moderate protection for vehicle producers and incentives under various content rulings for the domestic manufacture of parts. While it was very useful in promoting the establishment of the industry, it has clearly outlived its usefulness as a long-term measure under today's conditions. Proposals put forward in 1964 — aimed at some form of production sharing between Canadian and United States companies under a duty-free system — were finalized in January, 1965. Under a new agreement signed by the heads of state of Canada and the United States, both countries will reciprocally drop their tariffs on newly manufactured vehicles and original-equipment parts.[13] Canada abolished its tariff immediately while in the United States ratification is pending in Congress.

The agreement contains safeguards concerning existing Canadian vehicle content and represents

---

[11] Ontario's motor vehicle industry received two fillips in recent years with the opening of the American Motors plant in Brampton in 1962 and the move of Studebaker (American) from South Bend to Hamilton in 1963.

[12] Total Motor Vehicle Production, by month, January-June, 1965 and 1964.

	1965	*1964*
January	66,162	72,811
February	64,409	65,029
March	90,545	69,118
April	85,325	75,332
May	84,433	71,080
June	89,506	76,243
	480,379	429,606

[13] "Duty-free entry to Canada will be available only to motor vehicle producers and to parts makers producing components on order from vehicle producers." Federal Department of Industry, "News Release", January 15, 1965, p.7.

an attempt to bring more closely into alignment the present disparity between Canadian production and consumption of new vehicles. At present, Canada's share of North-American vehicle production lies in the neighborhood of 4 per cent while our consumption approaches 7.5 per cent. The Federal Department of Industry expects that the agreement will add $250 million to the annual value of Canada's vehicle output by 1968. To achieve this the Federal government is prepared to forego $50 million in customs revenue and the Canadian consumer is expected to forego the benefit of any immediate price reduction.

In the short run some Ontario parts suppliers will undoubtedly find their marginality brought home concretely. The majority, however, should find the necessary volume for efficient low-cost production. Also in the short run, some bottlenecks may appear in Ontario owing to temporary shortages or dislocations of skilled labour. Over the long haul, Ontario may expect a significant absolute growth in the industry while at the same time undergoing some relative decline in its share of Canadian production. The recent decision taken by General Motors to decentralize its Ontario operations by opening a plant in Ste. Therese, Quebec, may presage further decentralization on the part of other Canadian manufacturers. This may occur for two reasons. If Canada's share of total North-American vehicle production rises, decentralization will become not only economically feasible but desirable since production diseconomies set in very soon once optimum plant capacity is surpassed. Integration of North-American production may also entail a necessary reduction in the number of models manufactured in each Canadian plant and, as a result, the scope for model concentration and geographic dispersion within the multi-plant firm will widen. All of the foregoing notwithstanding, there will not be any large exodus of vehicle or parts manufacturers from the province in the foreseeable future. There are simply too many economically compelling reasons why manufacturers will remain here – close to large factor and sales markets. Dispersion, if and when it takes place, will be a gradual process and a function of economically justified growth.[14]

In sum, parts manufacturers in the province may expect appreciable growth, vehicle manufacturers may regard the whole North-American continent as a potential market and consumers may ultimately benefit from lower vehicle prices.

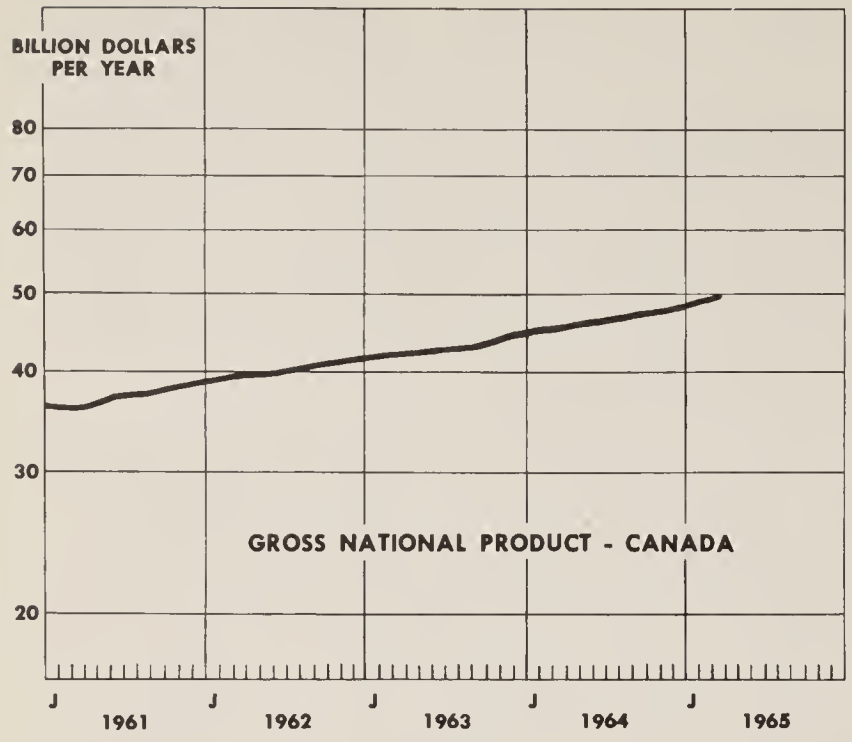
Thus, sixty years after the establishment of Canada's first automotive plant at Windsor, it appears as if the last logical step in the development of the motor vehicle industry has been taken. Once American-type cars were produced in quantity in Canada, it became only a matter of time before the basic similarities between Canadian and American tastes and economic systems would dictate that production facilities be integrated.

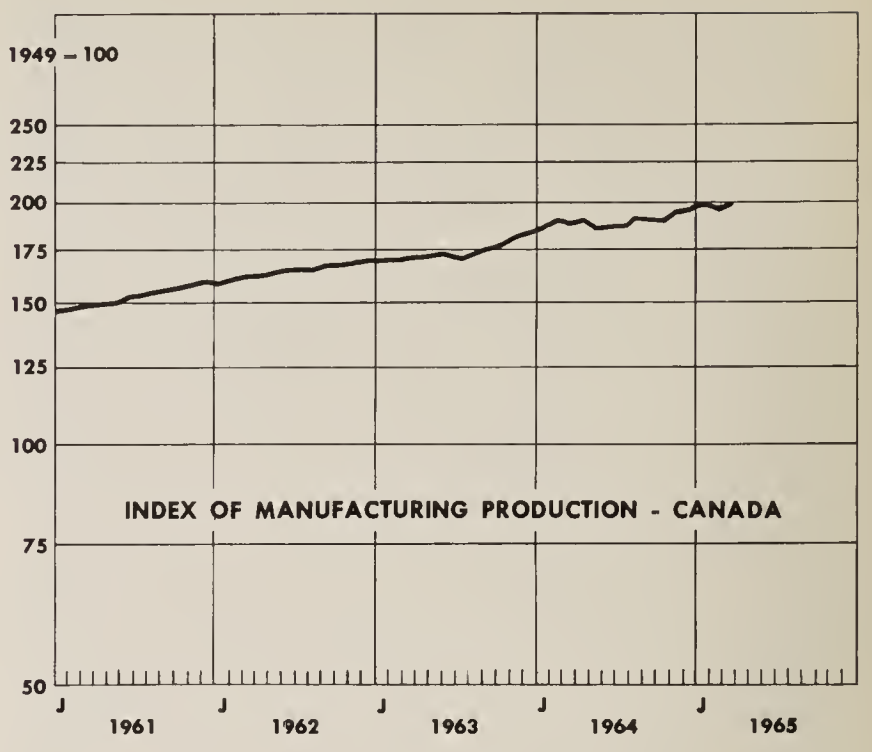
[14] It is quite possible that the above interpretation is over-optimistic. A less optimistic view might read as follows: Because the Canadian automotive industry has relied to a very large extent on United States research and design talent, and because the United States has a larger pool of capital, engineering skills and technological innovation, then, over the long haul, integration in motor vehicles may result in the gradual concentration of the capital intensive operations in the United States, leaving to Canada most of the labour intensive phases. Such a phenomenon is not entirely outside our recent experience in another industry. c.f., W. G. Phillips, *The Tariff and Farm Machinery Production in Canada*, Brief to the Royal Commission on Canada's Automotive Industry, 1960.

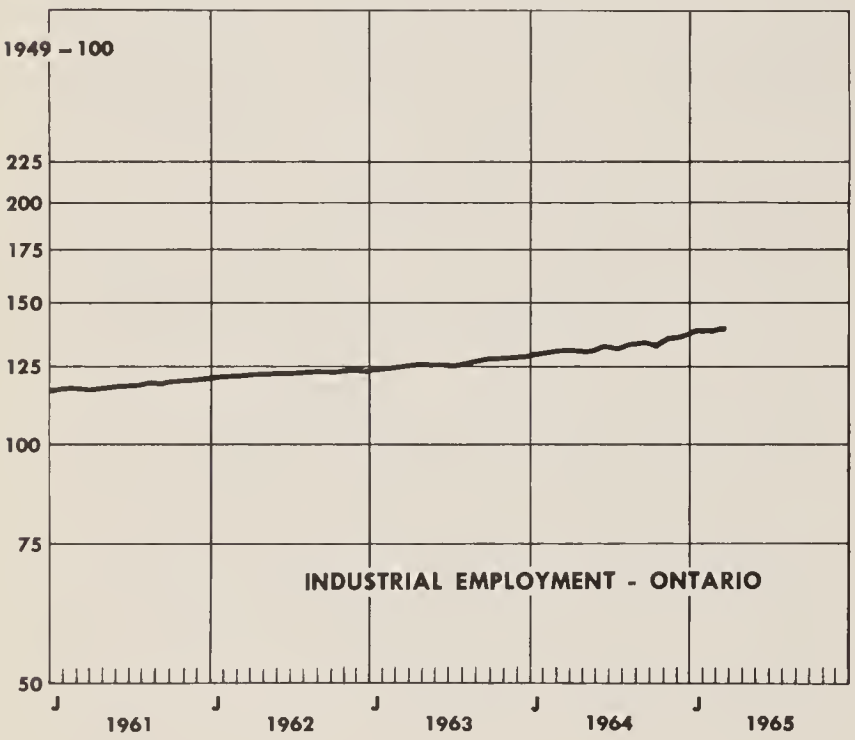
NOTE

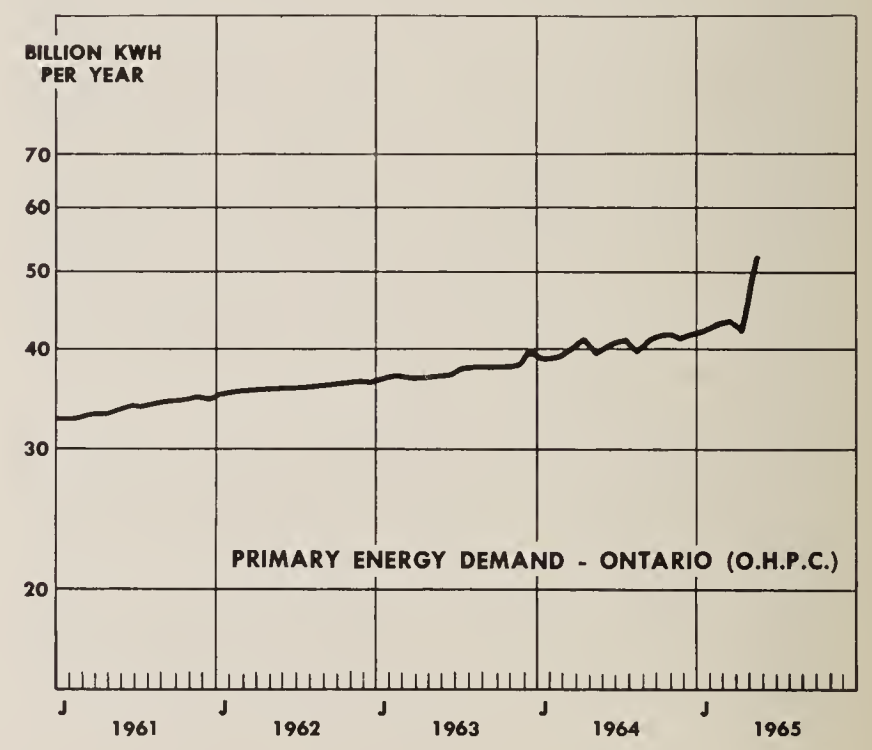
Primarily owing to the fact that Ontario has historically provided the bulk of Canada's motor vehicle production, data in the text refers to Canada. A statistical series covering Ontario's annual production of passenger cars, trucks and buses over the period 1904-1964 can be found in the *Ontario Statistical Review – 1964*, Ontario Department of Economics and Development.

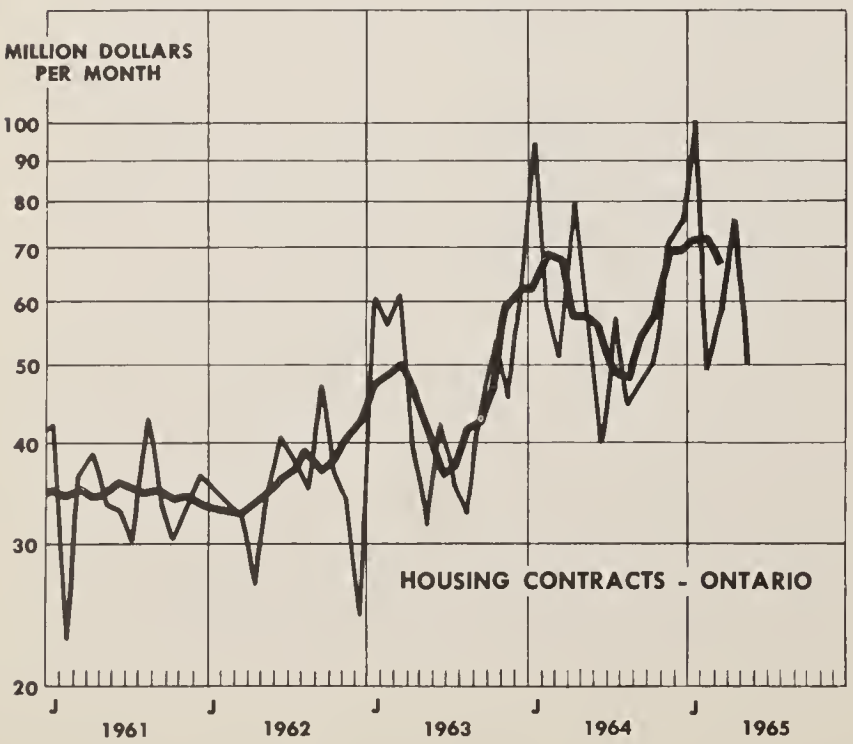
ECONOMIC INDICATORS — SEASONALLY ADJUSTED

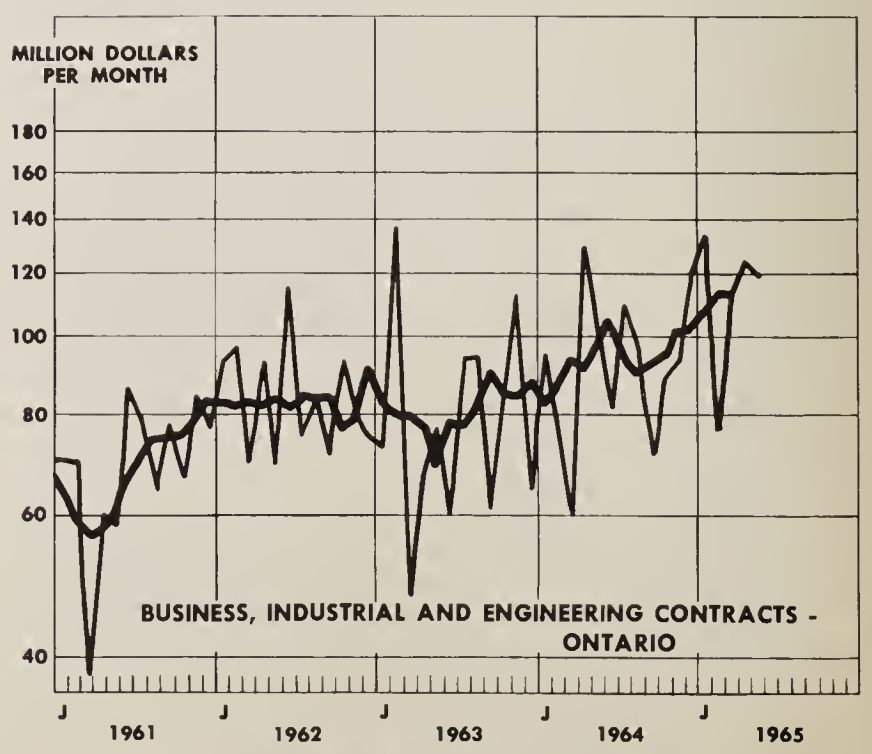




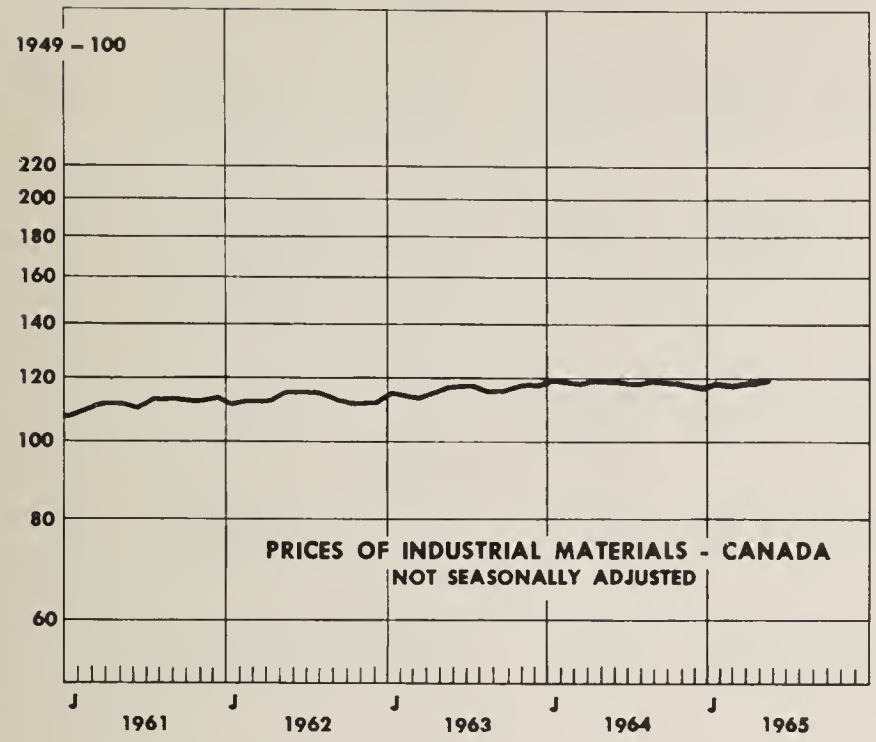


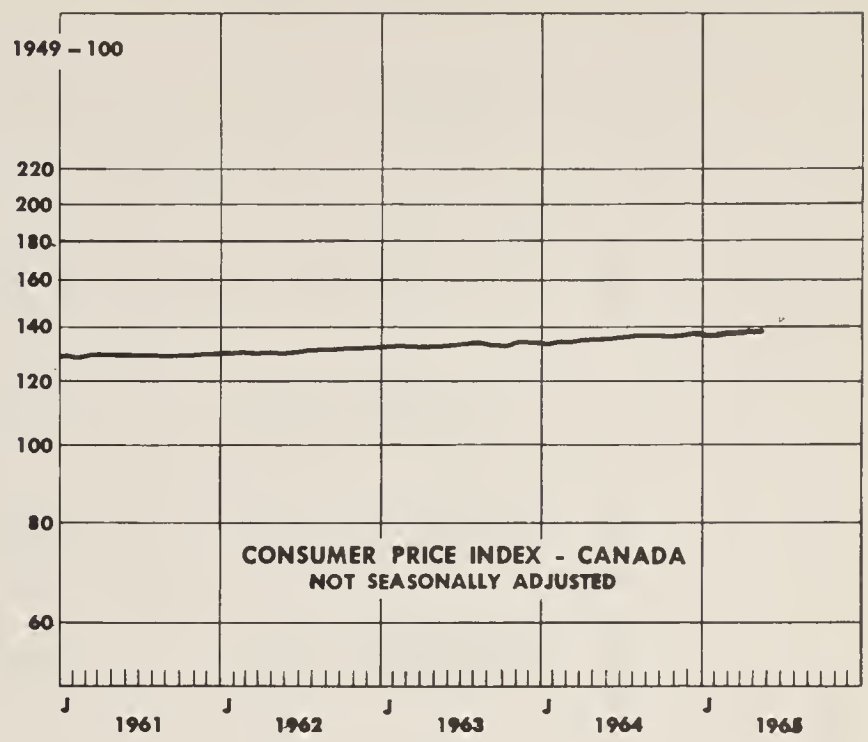


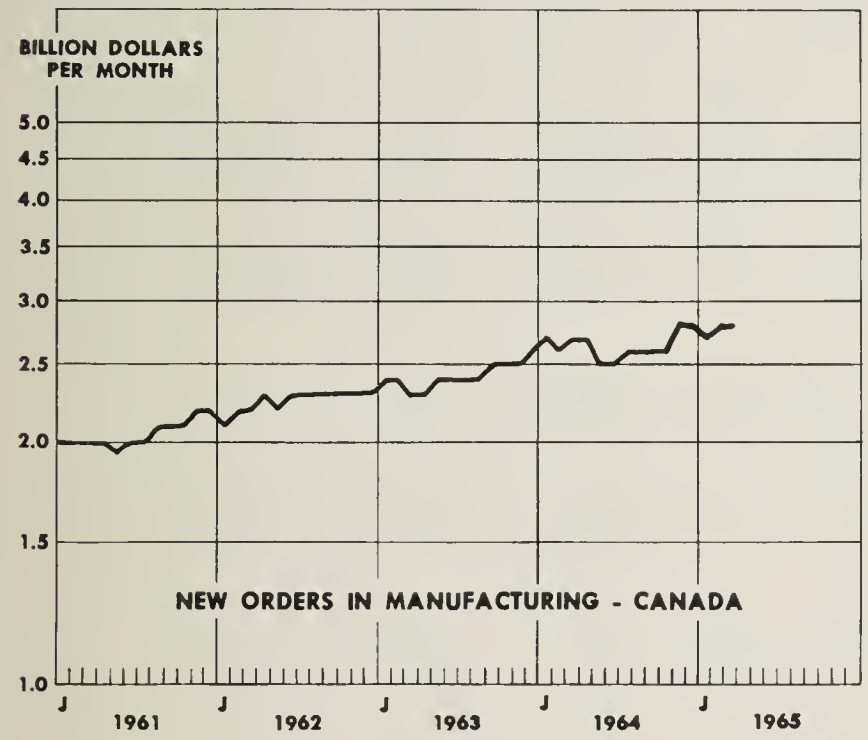


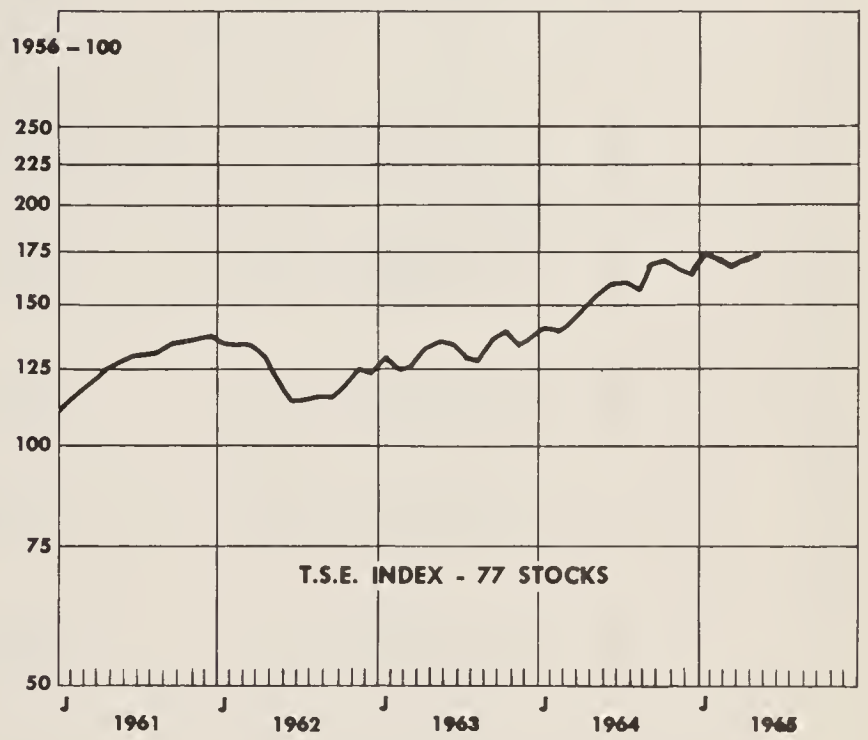


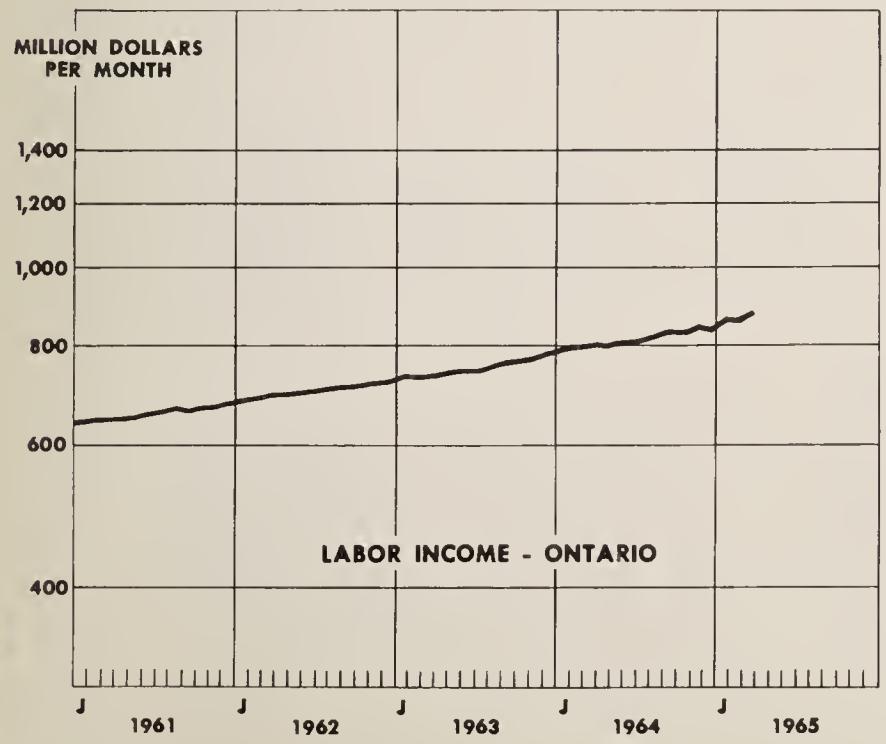
ECONOMIC INDICATORS — SEASONALLY ADJUSTED

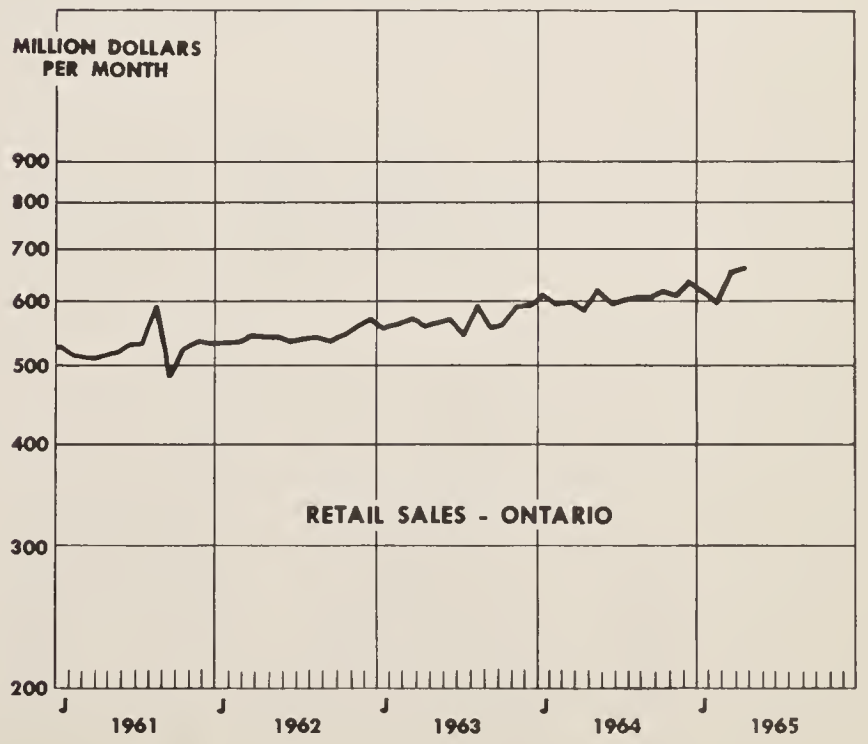












ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

(*Figures for Canada)

		1964									1965				
LEADING INDICATORS		April	May	June	July	August	September	October	November	December	January	February	March	April	May
Average Weekly Hours Worked in Manufacturing	(No.)	41.1	41.3	41.1	40.8	41.1	41.3	41.1	40.8	41.3	41.1	40.4			
Business Failures - Number		75	80	102	95	81	77	97	59	84	93	73	108	64	89
Business Failures - Liabilities	$ 000	6,754	11,965	12,832	10,424	2,738	8,578	8,215	2,895	1,801	3,006	4,588	8,006	4,527	9,243
New Orders in Manufacturing*	$ Million	2,685	2,506	2,549	2,554	2,591	2,603	2,623	2,775	2,770	2,677	2,792	2,821		
T.S.E. Index - 77 Stocks	1956=100	148.6	155.3	158.9	160.5	156.6	169.6	171.2	166.0	164.3	173.3	171.9	169.3	172.1	173.2
New Dwelling Unit Starts	(No.)	4,136	4,087	4,238	5,213	4,626	4,068	5,303	5,962	5,559	4,318	5,798	5,006	3,916	
Housing Contracts	$ Million	80.0	56.9	40.1	57.6	44.9	47.7	51.3	71.7	75.7	100.3	49.2	58.7	76.2	50.2
Business, Industrial and Engineering Contracts	$ Million	130.3	104.9	81.5	109.6	97.5	71.8	89.9	93.6	120.3	133.1	76.8	114.3	124.6	119.5
Money Supply*	$ Million	16,986	17,095	17,176	17,346	17,448	17,517	17,391	17,502	17,610	17,855	18,047	18,271	18,575	18,758
COINCIDENTAL AND LAGGING INDICATORS															
Gross National Product*	$ Million	- - - - - - - -		46,684	- - - - - - - - -		47,392	- - - - - - - - -		48,016	- - - - - - - - -		49,676		
Total Industrial Production*	1949=100	214.1	210.2	211.0	211.6	214.6	214.4	215.1	220.9	221.1	224.3	223.1	226.3		
Total Manufacturing		189.5	186.0	185.3	186.7	190.8	190.2	189.1	194.5	194.4	197.2	195.8	199.0		
Non-Durables		184.9	182.1	183.1	181.8	184.4	185.0	187.1	191.0	192.7	191.4	189.5	188.7		
Durables		194.9	190.5	187.8	192.6	198.3	196.3	191.4	198.6	196.4	203.9	203.1	210.9		
Mining		321.6	325.5	329.4	321.3	318.9	315.3	326.7	341.2	338.1	348.3	344.4	347.2		
Electric Power & Gas Utilities		409.3	384.5	405.4	407.4	403.7	416.1	426.9	421.8	434.1	429.6	436.6	442.0		
Cheques Cashed in Clearing Centres	$ Million	3,540	3,705	3,749	3,602	3,620	3,891	3,789	3,600	3,688	3,386	4,058			
Retail Trade	$ Million	584	621	602	608	611	610	623	618	635	623	604	659	663	
Labour Income	$ Million	798	803	810	819	825	838	832	840	840	859	858	877		
Industrial Employment	1949=100	131.5	131.4	132.6	131.7	134.2	134.6	133.5	136.2	136.8	138.1	138.4	139.5		
Average Hourly Earnings in Manufacturing	$	2.10	2.11	2.13	2.13	2.16	2.17	2.15	2.14	2.16	2.19	2.19			
Primary Energy Demand -OHPC	BKWH	41.25	39.33	40.98	41.01	39.79	41.08	41.81	41.29	41.72	42.13	42.86	43.46	42.52	52.14
New Dwelling Unit Completions	(No.)	6,240	3,454	3,095	4,876	3,798	4,519	4,160	2,969	3,013	2,817	4,330	9,696	7,218	
ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED															
Labour Force (1)	000's	2,499	2,541	2,620	2,663	2,661	2,559	2,561	2,567	2,563	2,555	2,527	2,535	2,548	2,595
Employed (1)	000's	2,409	2,471	2,532	2,588	2,593	2,504	2,487	2,506	2,487	2,457	2,434	2,456	2,468	2,536
Unemployed (1)	000's	90	70	88	75	68	55	74	61	76	98	93	79	80	59
Unemployed as % of Labour Force (1)	%	3.6	2.8	3.4	2.8	2.6	2.1	2.9	2.4	3.0	3.8	3.7	3.1	3.1	2.3
Prices, Industrial Materials*	1935-39=100	258.8	258.7	257.8	257.3	259.9	258.8	258.0	258.5	256.2	256.7	255.3	256.3	256.6	260.4
Domestic Exports*	$ Million	651.4	670.5	774.7	772.4	674.1	724.0	669.9	706.6	714.2	569.2	538.3	685.5		
Imports for Consumption*	$ Million	704.0	657.7	687.6	637.9	566.2	616.9	636.8	673.4	656.3	559.8	555.0	731.1		
Foreign Exchange Reserves*	$ Million U.S.	2,481	2,509	2,534	2,534	2,576	2,625	2,687	2,743	2,674	2,668	2,649	2,554	2,567	2,499

(1) For a few months, the labour reports will not be adjusted for seasonal variation as recent revisions in the statistics have not been completed in the seasonally adjusted series.

REFERENCE COPY

REFERENCE COPY

ONTARIO ECONOMIC REVIEW

JULY 1965
VOL. 3
NO. 3

DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Hon. Stanley J. Randall, Minister

Stuart W. Clarkson, Deputy Minister

81/759

HA
747
0656
1965
VOL.3
NO.3

The Ontario Economic Review *is prepared and edited monthly in the Economics Branch of the Department of Economics and Development and is available free of charge. The review is intended to provide current information on economic activity in Ontario and to act as a forum for the results of research in the public service on matters affecting the Ontario economy. The signed articles reflect the opinions of their authors and do not necessarily represent the views of the Economics Branch. All correspondence should be directed to the Editor,* Ontario Economic Review, *Economics Branch, Department of Economics and Development, 950 Yonge St., Toronto 5.*

THE ONTARIO ECONOMY

Ontario Agricultural Review and Outlook*

(i) Review

Agricultural production in Ontario during 1964 reached a new high — 2.1 per cent above 1963 — and 44 per cent more than the base year, 1949. Prices of agricultural products at the farm declined 1.4 per cent. Consequently the gross value of agricultural production in 1964 was only slightly higher than in 1963.

Realized gross income of farm operators from farming operations in Ontario in 1964 reached $1,116.2 million, an increase of $16 million over 1963. However, operating and depreciation charges continued to increase rapidly, rising by some $43.5 million to $766.2 million in 1964. Therefore, realized net income from farming operations declined by about $27 million to $350.0 million.

These statistics reveal a situation that has been rather typical of Ontario agriculture during the last ten years. Increases in the production of agricultural products frequently are not reflected in higher returns to agricultural producers owing to declines in farm prices. In addition, the volume as well as the prices of goods and services used by farmers as inputs in agricultural production have increased yearly. The index of these costs, based on 1935-39 = 100, increased by 2.7% in 1964 to 314.7. Major increases have occurred in the costs of hired labour, fertilizer, and repairs and maintenance of buildings and machinery. In addition, agriculture has steadily increased its purchase of industrial products.

Farm cash income increased by $10 million to $996.6 million in 1964. Income from the sale of all types of livestock, the main product group, was down slightly as a result of the somewhat lower prices that were associated with larger marketings. Cash income from dairy products increased by about $13 million. Sales of fluid milk were up, even though prices were slightly higher. Prices for milk used in manufactured milk products were up in all cases. Cash income from the sale of eggs declined by $8.3 million to $56.1 million in 1964. A large increase in production caused prices to drop from 40 cents in 1963 to 34 cents per dozen.

Despite lower prices for most fruits, cash receipts from the sale of fruit increased by $6 million to $33.0 million, mainly due to higher yields. Cash income from vegetables increased considerably. In the case of onions, a lower volume of production was more than offset by higher prices, partly based on a strong export demand, especially in the United Kingdom. Cash income from the main canning crops (peas, tomatoes, and sweet corn) increased considerably, mainly due to higher yields, while prices changed only slightly. Flue-cured tobacco was the only major field crop showing a significant decrease in cash income. This was brought about by the severe drop in price and the lower quality leaf of the large 1963 crop.

(ii) Outlook

Due to cold spring weather and a serious lack of soil moisture during the early summer months of 1965, below average yields were expected for most field crops in many parts of Ontario, but particularly in the eastern counties. Relatively heavy rainfall during July has improved crop conditions greatly, so that the yields of most field crops are expected to be only slightly below normal.

**Prepared by the Farm Economics, Cooperatives and Statistics Branch, Ontario Department of Agriculture.*

Although yields of hay and pasture up to mid-July have been decidedly below average, the production of milk does not appear to have been seriously affected. The number of livestock on farms has decreased compared to last year, particularly in the main drought areas. Hogs on farms in June were 6 per cent below last year's number in Ontario, but 16 per cent below the number in Eastern Ontario. The number of cattle and calves on farms in Ontario, according to the June agricultural survey, did not change much from a year ago, but Eastern Ontario reported a decrease of at least 5 per cent.

Prices of beef cattle in Ontario have been surprisingly strong during the early part of the year, but are expected to be down somewhat in line with market expectations in the United States. Hog prices have closely followed the rising trend in the United States despite an increase in marketings in Canada during the first part of the year. These strong prices are expected to continue, allowing for a seasonal decline in the fall.

Prices of dairy products are expected to hold up well during the remainder of this year, particularly in the case of cheese. Prices of eggs to producers reached a post-war low point during the first quarter of 1965. This prompted a severe cut-back in hatchings which will probably result in a strong market for eggs during the second half of the year. Broiler supplies are slightly higher than last year, but prices have kept up well. During the remainder of the year competition from turkeys may become more serious since marketings during the summer and fall are expected to be heavy with some corresponding pressure on prices.

Production

The value of manufacturers' shipments in Ontario in May reached $1,481 million. This is an increase of $32 million from April and it brought to $160 million the cumulative increase since May 1964, when the level of shipments was $1,321 million. Much of the 12.1% year-to-year increase in Ontario comes from strength in the primary metal industries, machinery industries and in the transportation, chemical and chemical product industries.

At the national level, the seasonally adjusted Index of Industrial Production moved up half a point in May to 226.0 (1949 = 100). Most of the gain on index was attributable to increases in the output of non-durables where particular strength was evident in textiles, tobacco and rubber products and petroleum refining. The durables index remained virtually unchanged, increases in transportation equipment, iron and steel products and electrical apparatus being offset by declines in wood products, non-metallic mineral products and non-ferrous metal products. The mining index declined approximately 4.3% largely through the influence of decreases in the output of petroleum, iron ore and nickel.

Construction

After dipping slightly in May, the seasonally adjusted value of Business, Industrial and Engineering contracts in June recovered to $122.3 million. This marks the third month in the first half of 1965 that the monthly values of B. I. & E. contracts have exceeded $120 million, compared to only one month in the last half of 1964. The same evidence of strength was apparent in June's seasonally adjusted value of housing contracts in Ontario. After declining some $26 million in May, housing contracts in June rose $21 million to $71.2 million. The June level compares very favourably with winter values when the Federal housing bonus of $500 was in effect.

After reaching a peak of 9,696 in March, dwelling unit completions in Ontario for April and May declined to 7,218 and 4,136 units respectively. The May 1965 figure however is considerably above the May 1964 level of 3,454 units.

In Ontario, recently announced large contracts of $1 million and over totalled $111.3 million in July. Some of the more significant awards are listed below.

LARGE CONSTRUCTION AWARDS PLACED RECENTLY IN ONTARIO

Location	*$ Million*	*Description*
Ajax	3.2	Apartments
Brockville	1.2	Hospital addition
Fort William	1.0	Shopping centre
Grand Bend	7.4	Water supply system
Hamilton	2.6	Apartments
London	3.0	Pollution control plant addition
Markham Twp.	3.5	Apartments
Oakville	2.0	Petro-chemical plant
Ottawa	4.3	High school
Peterborough	4.4	University buildings
St. Thomas	1.0	Plant and office
Scarborough Twp.	10.5	Hospital
Sombra Twp.	1.5	Chemical plant extension
Sudbury	1.5	Housing
Toronto	20.8	Apartments
Toronto	4.5	Schools
Toronto	4.4	Roads
Various locations	7.8	Provincial highways

Employment

With June comes the end of the school year. The annual exodus from the school system brings many thousands of youngsters into the labour market over the summer months either as permanent entrants to the labour force or as summer casuals.

In June, Ontario's labour force numbered 2,683 thousand – up some 88 thousand from May. Over the same period employment rose 73 thousand to 2,609 thousand. As a result the number of unemployed rose by 15 thousand to a total of 74 thousand.

The unemployment rate, at 2.8% of the labour force, is still well beneath that of the early months of 1965 and compares well with June 1964 when the number of unemployed rose to 88 thousand or 3.4% of the labour force.

ARDA Aid to Manitoulin

The District of Manitoulin (population 11,000) is composed of the island of the same name (1,073 square miles) and a strip of mainland on the north shore of Lake Huron (515 square miles). The predominately rural economy of the area is largely based on the production of dairy products, beef, poultry, hogs and unprocessed wood products. The excellent fishing and the natural beauty of the District are prime recreational and tourist attractions.

In recent years the economy of the District has been jolted by a number of adverse economic events. The decline of the uranium community of Elliot Lake resulted in reduced mainland sales of Manitoulin milk and dairy products. The logging division of a large paper concern operating in the District was discontinued in 1962 while a cooperative turkey eviscerating plant at Gore Bay, suffering from management difficulties, lost the confidence of growers and turkey output declined markedly.

The major economic problems of Manitoulin stem not from a lack of exploitable resources but from resource under-utilization. Recognizing this fact, the federal and provincial governments have agreed to share the cost of a $650,000 development program under the direction of the Agricultural Rehabilitation and Development Administration. Approximately $250,000 will be spent to develop further the recreational and tourist facilities of the area, $200,000 on a program of forest management and $184,000 on the turkey industry where improvements are expected to raise production to 70,000 birds per year and to provide the Gore Bay plant with better management and processing facilities. In the field of beef production ARDA has already established a 2,500 acre community pasture and an additional 3,000 acres are scheduled for 1966.

Finance

Throughout June, conditions on the Canadian money market remained virtually unchanged with interest rate fluctuations being confined to a narrow range. The supply of loanable funds was sufficient to meet a fairly high level of demand. The day-to-day loan rate for example, closed at a level of 3¾% – a rate which generally prevailed over the month.

Highlighting activity on otherwise dull Canadian bond markets was the floatation of a $325 million three-part Government of Canada refunding issue. The new issue comprised two shorter-termed maturities in the form of a 10-month 3½% and a one-year 11-month 4¼% maturity – both being additions to bond issues already outstanding – while the final part was in the form of a five-year 5% bond issue. The reception accorded this refunding was only fair, and this generally served to further depress bond prices in most sectors of the market. New Canadian bond financings for the first half of 1965 totalled $2.15 billion, an increase of some 18.3% over last year's comparable total of $1.82 billion.

Continuing concern over the course of international events and pessimistic forecasts by some United States officials regarding the maintenance of the present level of economic activity continued to have a decisively depressing influence upon prices of investment quality equities in all sectors of the Canadian stock exchanges during most of June. The Toronto Stock Exchange Industrial Index, for example, declined to a 1965 low of 159.65 on June 28th before closing the month at a level of 163.27 – a decline of almost 10 points on Index over the month.

Canadian official holdings of gold and U.S. dollars fell by $18.6 million during June to end the month at a level of U.S. $2,480.1 million – the lowest level in more than a year.

The value of the Canadian dollar in terms of U.S. funds consistently declined throughout most of June. Foremost among the factors contributing to this downtrend were the increase in the demand for foreign currency by Canadians and the reduced foreign demand for Canadian dollars. From a closing value of 92.63 cents for May the value of the Canadian dollar declined to a month's low and closing value of 92.28 cents – down 0.35 cents over the period.

PERSPECTIVE ON RECENT PRICE MOVEMENTS IN CANADA

W. G. R. Cameron
Senior Economist, Economics Branch
ONTARIO DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Since late 1963 when it became generally realized that U.S. income tax rates were likely to be cut, there has been speculation about the possibility, that at some point demands might begin to exceed productive capacity in the economy. Early in 1964 demand began to exceed the supply of skilled, professional and managerial labour, and now the question has arisen as to whether inflationary tendencies have been generated.

In this attempt to place recent price movements in perspective, attention will be directed first to the implicit price indexes for broad aggregates of demand, and later to price changes for classes of consumer expenditures, nation-wide and for regional cities, for general wholesale prices and for prices charged by particular manufacturing industries.

The twelve charts at the end of this article show the price statistics for the broad aggregates of demand. The horizontal bars indicate the average price level for each of the past three years. The dashed lines connect seasonally adjusted quarterly averages, and the shaded areas show the difference between the quarterly figures and the annual averages. These shaded areas highlight the movements of prices within the years.[1] Each chart also contains a trend line (calculated with least squares of logarithms) that is based on statistics from 1957 (the last year of post-war inflation) to 1963,[2] and is extrapolated to 1965. The purpose of this trend line is to highlight any deviations from trend that have developed since 1963. There is also a technical reason for this approach and it will be mentioned and developed later in the article.

The Price Index for the Economy as a Whole

Chart No. I shows the statistics on the implicit price index for Gross National Expenditure. The compound annual percentage increase from 1957 to 1963 was 1.6 per cent. Since the fourth quarter of 1963 the rate of increase has risen above this trend, as is indicated by the level of the 1964 average and by the slope of the lines linking the quarterly indexes. In 1964, the implicit price index was 0.5 per cent above the trend figure for 1964. What are the sectoral sources of this acceleration? Each of the demand sectors will be discussed in turn in order to answer this question.

Export and Import Prices

Charts XI and XII, respectively, show the statistics on the implicit price index for exports and imports of goods and services. The compound annual trend rates of increase for 1957-1963 were 1.4 per cent for exports and 2.1 per cent for imports. Since 1961 both series have risen above their trend lines, but import prices declined during the last three quarters and export prices during the last two quarters, for which data are available. The rises above trend were related to the devaluation that occurred in 1962, and the recent declines indicate the increase in international competition to supply world markets, some of which have decelerated considerably. In 1964, the annual average implicit price index for exports was 1.5 per cent above trend and that for imports was 1.0 per cent above trend, but since then import prices have slipped below trend.

Business Gross Fixed Capital Formation

Charts VII to X show the statistics for implicit price indexes of total business fixed capital investment and its components, listed in the following table:

Investment Sector	*Compound Annual Trend Rate, 1957-1963*	*% Deviation from Trend in 1964*
Business Gross Fixed Capital Formation	2.1%	1.7%
New Residential Construction	2.5%	3.5%
New Non-residential Construction	2.0%	1.0%
New Machinery and Equipment	2.1%	1.2%

The charts show that subsequent to 1962 the price indexes rose sharply above their trend lines.

In these series in particular, it is important to attend to deviations from the trend rather than the slope of the trend and level of the indexes. In the

[1] I am indebted to Mr. Kalman Tar, economist in the Economics Branch, for suggesting this method of charting the price movements.

[2] Canada's vigorous expansion began in the latter part of 1963, driven by the wheat contract with the Soviet Union and by the winter housing bonus, and was subsequently reinforced through acceleration in the U.S. economy.

construction series, the price indexes are based on prices for labour and materials, for no reliable method has yet been devised for taking full account of the improvement in productivity in the industry. As a result, the price increases are overstated, but there is no way of ascertaining by what degree. Although the price indexes for machinery and equipment are measured differently, they also are uncertain. The trend lines in these series, therefore, reflect to some extent the conventions used in price measurement. However, the deviations from the trend should be a fairly reasonable reflection of new sources of price changes.

One of the reasons for the rise above trend may have been the fact that in three successive stages since mid-1963, the Federal sales tax has been extended to apply to construction materials and machinery and equipment, the last increase, on January 1, 1965 bringing the total tax to 11 per cent on these goods. It is a moot question, of course, just how much of the rise above trend has been the result of the extension of the Federal sales tax. When such a tax is imposed, the seller may try to shift it forward to the purchaser but he may be forced to absorb it and try to shift some or all of it backward to those who supply him with labour or materials. Who will bear the tax or what part of it, therefore, depends primarily on bargaining positions within any given demand situation.

Table I shows the amounts of business gross expenditure for each of the three categories of fixed capital investment in 1963 and 1964 as well as the intended program for 1965 (according to the recent mid-year survey by the Federal Department of Trade and Commerce). The percentage increases in these expenditures during 1964 and 1965 are quite high, and indicate a possibility that prices would have risen above trend even without the tax.

The fact that capital goods prices have been rising strongly in the context of a capital investment boom should not be interpreted as indicating that the general situation is an inflationary one. There are many other price series to be considered, as well as the question whether imbalances are ephemeral or are likely to be sustained.

Government Expenditure for Goods and Services

Chart VI shows the statistics on the price index for government expenditure for goods and services. The compound annual trend rate of increase for 1957-1963 was 2.8 per cent. In this series, as well, attention should be directed to deviations from trend rather than to the slope of the trend and the level of the statistics. These government expenditures are comprised almost entirely of wages and salaries and of purchases from business. Regarding the wages and salaries, no means has been found of allowing adequately for improvements in productivity (i.e. increased output per manhour). Regarding the purchases from business, these consist largely of construction and machinery and equipment, and the inherent bias in these price indexes was mentioned previously. For total government expenditure on goods and services, the deviation from trend in 1964 was 0.6 per cent.

Personal Expenditure for Consumer Goods and Services

Charts II to V show the price index statistics for this series and the components listed in the following table:

Expenditure Category	*Compound Annual Trend Rate, 1957-1963*	*% Deviation from Trend in 1964*
Total Consumer Goods and Services	1.3%	0.1%
Non-durable goods	1.0%	1.2%
Durable goods	0.0%	–1.5%
Services	2.1%	–0.6%

Source: National Accounts, Income and Expenditure, D.B.S.

Once more, with regard to consumer expenditure for services, the focus of attention is deviation from trend rather than the slope of the trend or level of the price indexes. It is difficult for the price statisticians to allow for the qualitative improvement in the services purchased, such as medical care. However, it will be seen that the price index for services has been running below trend.

The price index for non-durable consumer goods, including, for example, food, beverages, tobacco, footwear and clothing, has risen above trend, but the index for durable goods, including such items as automobiles, refrigerators and furniture, has fallen below trend, and the 1964 price index for total goods and services is almost precisely on the 1957-1963 trend line.

More Recent Movements in Consumer Price Indexes

Table II shows the percentage changes in price indexes over one-year spans (e.g., June 1964 to June 1965) for the components of the consumer price index.

TABLE I

BUSINESS GROSS FIXED CAPITAL FORMATION

(Millions of current dollars)

	Actual 1963	*Actual 1964*	*Intentions 1965*	*% change* 1964	1965
New residential construction	1,707	2,021	2,307	18.4	14.2
New non-residential construction	2,835	3,343	4,102	17.9	22.7
New machinery and equipment	3,049	3,604	4,265	18.2	18.3
Total	7,591	8,968	10,674	18.1	19.0

Source: Private and Public Investment in Canada, Outlook 1965, Mid-Year Review, Ottawa Department of Trade and Commerce.

TABLE II

CONSUMER PRICE INDEXES

Percentage Change from Year Ago

	1963 to 1964						*1964 to 1965*				*Compound Annual Rate 1957 to 1963*
	March	*May*	*June*	*July*	*Sept.*	*Dec.*	*March*	*May*	*June*	*July*	
Food	1.9	2.3	2.2	2.2	1.1	1.4	1.5	2.5	3.8	2.7	1.6
Housing	1.1	1.7	1.8	2.1	1.8	1.9	2.0	1.6	1.6	1.7	1.2
Clothing	2.6	2.7	2.6	2.9	2.8	1.8	1.5	1.9	1.8	1.8	1.2
Transportation	2.4	1.3	1.2	0.6	0.4	1.5	1.8	3.1	3.5	3.8	1.3
Health and personal care	3.4	2.9	2.8	2.9	3.1	5.4	5.6	5.0	4.8	4.8	2.7
Recreation and reading	2.5	1.8	1.4	1.8	1.2	1.4	0.7	2.0	2.4	2.0	2.4
Tobacco and alcohol	1.2	2.0	2.0	1.7	1.8	2.6	2.1	1.9	1.9	1.9	1.3
Total goods and services	1.7	2.0	1.9	2.0	1.6	1.9	2.0	2.2	2.7	2.4	1.5

Source: Price Movements, D.B.S., and Daily Bulletin of Canadian Statistical Review, D.B.S.

TABLE III

CONSUMER PRICE INDEXES FOR REGIONAL CITIES

Percentage Change June 1964 to June 1965

	Food	*Housing*	*Clothing*	*Trans-portation*	*Health and Personal Care*	*Recreation and Reading*	*Tobacco and Alcohol*	*Total*
Halifax	4.5	0.7	2.0	2.4	1.6	1.5	1.0	2.2
St. John	3.4	0.9	1.7	3.2	2.9	1.6	1.0	2.1
Montreal	2.1	0.5	2.3	4.8	4.5	6.0	2.8	2.4
Ottawa	3.7	0.2	0.7	1.2	6.8	1.9	1.1	1.9
Toronto	4.8	0.8	2.2	3.3	5.2	2.8	0.6	2.7
Winnipeg	3.7	1.1	1.2	2.1	3.5	0.6	8.7	2.6
Saskatoon-Regina	3.0	0.6	1.5	1.9	1.8	2.2	3.8	1.9
Edmonton-Calgary	3.6	0.6	1.0	2.6	2.2	0.3	0.8	1.9
Vancouver	3.6	–0.4	1.6	5.4	1.2	–0.3	1.3	1.9

Source: Prices and Price Indexes, D.B.S.

The table shows acceleration in the rate of increase in June this year for food, transportation, and recreation and reading, but it also shows deceleration for food and for recreation and reading in July. Clothing and housing prices have not been rising as much this year as in 1964, but it will be noted that all series except recreation and reading have been rising faster than their compound annual rates of increase from 1957 to 1963, and nearly all components have been rising faster than last year. The price rises were particularly strong in June this year in Toronto, Winnipeg and Montreal, as is shown in Table III. Table III also shows that component price increases varied from city to city. For example, food prices did not rise so sharply in Montreal, but some other prices rose considerably. There were major increases in St. John, Montreal, Ottawa, Toronto and Winnipeg for health and personal care, as well as for tobacco and alcohol in Winnipeg and Saskatoon-Regina, and for transportation in Vancouver and Montreal.

The rise in food prices was only in small part the result of increasing demand. It reflected partly bad weather in some parts of North America, such as drought in Ontario, the Atlantic provinces and northeastern United States, and frost in British Columbia, Florida and Texas; partly the change in U.S. policy towards employment of Mexican labour; partly the decline in U.S. supplies of pork, and partly the increased Canadian exports of beef, dressed beef and veal to the U.S. Of course, those who had been unemployed and are now working can purchase more food, and wage earners who are now working more steadily and longer hours can also upgrade their diet by purchasing more protein and citrus fruits, but had it not been for the special situations that affected supplies of fruits, vegetables and pork, this rise of demand probably could have been handled on the basis of usual trends to a much larger extent in most areas.

Wholesale Price Indexes

The general wholesale price index has strengthened recently, the latest data showing an increase of almost three per cent over the year-earlier level. However, this rise is from weakened levels in 1964, which were below the 1963 levels. Table IV shows price increases year-to-year for various months (e.g., March 1963 to March 1964) for goods sold at wholesale. The major increases are for non-ferrous metal products, chemical products, iron products and animal products. Although price increases have decelerated for building materials, it will be noted that the price rises are considerably higher than those for wood products and non-metallic mineral products, many of which go into building materials. Wholesale prices have been declining for vegetable products and textile products. The sensitive price index for thirty industrial materials was running this year below every month in 1964, until June and July. It will be seen that the rises in price indexes for fully and chiefly manufactured products were running less than last year (although there was acceleration) until June and July, when prices surged in the year-to-year comparison. However, the rises in June and July were still only about two per cent over the previous year. Although there are large percentage increases for raw and partly manufactured products in June and July, these are from the relatively depressed levels of 1964.

Manufacturing Industry Selling Prices

The final series to be considered are the prices at which manufacturing industries sell their products. The year-over-year percentage changes are presented in Table V. It will be noted that there is little evidence of systematic trends towards rising prices. The statistics are available through June, and they indicate that the surge in the general wholesale price index during June was not a reflection of widespread rises, but rather a reflection of the increase for animal products, slaughtering and meat-packing and rubber goods.

Out of the 49 price index series in Table V, there are about a dozen industries in which one can find evidence of an acceleration of price increases at a high level. Such acceleration is found in slaughtering and meat packing, tobacco, cigars and cigarettes, fertilizers, soaps and washing compounds, men's factory clothing, sash, door and planing mills, iron castings, rolled iron and steel products, wire and wire goods, aluminum products and brass and copper products. There are five with high price rises that appear to be decelerating, such as woollen textiles, pulp mills, veneers and plywoods, smelting and refining, and concrete products. Furthermore, the 49 series include 15 that have had price declines and eight in which price rises have been slight and appear to be weakening. Table VI summarizes the recent tendencies in manufacturing industry selling price indexes, up until June this year.

Comparison with the 1956-1957 Period

Another approach to obtaining perspective on our recent price movements is to compare them with the price rises during the last period of post-war inflation, 1956 and 1957. It was this period of inflation in North America that led the Eisenhower

TABLE IV
WHOLESALE PRICE INDEXES
Percentage Change from Year-Ago Month

	1963-1964							1964-1965				
	March	*April*	*May*	*June*	*July*	*Sept.*	*Dec.*	*March*	*April*	*May*	*June*	*July*
THIRTY INDUSTRIAL MATERIALS	2.7	2.7	1.5	1.1	0.9	3.1	–0.5	–0.3	–0.9	–0.1	1.0	1.6
BUILDING MATERIALS												
Residential	7.1	10.2	10.6	7.1	6.2	5.5	5.2	7.1	3.9	3.2		
Non-residential	3.6	6.0	6.1	3.1	3.3	3.1	3.1	6.2	4.4	4.7		
GENERAL WHOLESALE PRICES												
FARM PRODUCTS												
Vegetable	1.7	0.6	–1.4	–4.7	–4.3	–4.1	–3.7	–3.5	–3.1	–3.3	–0.2	–0.9
Animal	–1.5	–0.8	–1.0	–1.2	–3.7	–3.0	1.4	2.6	2.8	4.1	7.7	9.6
NON-FARM PRODUCTS, TOTAL	1.7	1.8	1.8	1.8	1.7	1.7	1.4	1.5	1.7	2.2	2.2	2.2
Textile products	0.8	0.4	–0.3	0.1	0.4	N.C.	–0.9	–0.8	1.4	–0.6	–0.6	–0.7
Wood products	3.1	3.1	3.1	2.8	2.5	1.7	0.7	0.8	0.7	0.2	0.2	0.1
Iron products	0.7	0.8	0.9	0.8	0.7	1.4	1.8	1.8	3.4	4.0	4.5	4.5
Non-ferrous metal products[1]	2.8	3.9	3.8	4.1	3.6	5.6	6.0	5.7	4.5	7.5	7.2	7.0
Non-metallic mineral products	1.1	0.7	1.3	1.2	1.1	0.4	–0.3	0.5	0.2	0.05	0.05	0.2
Chemical products	–0.1	0.4	0.3	0.9	0.7	1.1	2.6	2.7	5.5	5.8	5.1	6.0
TOTAL GENERAL WHOLESALE	1.2	1.1	0.6	–0.1	–0.5	–0.3	0.3	0.6	0.9	1.3	2.7	2.8
Raw and partly manufactured goods	0.4	0.1	–0.7	–1.7	–2.2	–1.1	1.1	0.8	1.2	1.8	3.8	4.2
Fully and chiefly manufactured goods	1.8	1.9	1.6	0.9	0.5	0.3	–0.1	0.5	0.7	0.9	2.1	2.1
Iron products	0.8	0.9	1.0	0.8	0.8	0.4	0.6	0.7	2.4	3.2	3.8	3.8
Non-ferrous metal products[2]	3.6	4.1	3.5	4.3	4.2	7.4	8.8	8.9	8.6	12.5	11.5	9.5

[1] Includes gold
[2] Excludes gold
Source: Prices and Price Indexes, D.B.S.

TABLE V
MANUFACTURING INDUSTRY SELLING PRICE INDEXES
Percentage Change from Year-Ago Month

	1963-1964							1964-1965			
	March	*April*	*May*	*June*	*July*	*Sept.*	*Dec.*	*March*	*April*	*May*	*June*
(A)											
NON-DURABLE GOODS											
FOODS AND BEVERAGES											
Slaughtering and meat packing	3.6	–1.8	–2.1	–2.5	–5.6	–5.2	0.3	1.7	1.4	2.5	8.4
Fruit and vegetable preparations	6.3	6.7	7.7	7.2	3.9	2.3	–1.6	–1.1	–2.3	–2.5	–2.1
Flour mills	4.3	5.8	7.3	4.5	4.1	3.8	3.3	–1.3	–2.0	–2.6	–0.8
Bread and other bakery products	5.4	5.1	5.1	4.2	4.6	3.3	2.2	0.7	0.9	0.6	0.5
Distilled liquor	5.4	5.4	5.4	5.4	5.4	5.2	5.2	N.C.	–0.1	N.C.	N.C.
Breweries	2.4	2.4	2.4	2.4	2.4	2.4	0.3	N.C.	N.C.	N.C.	N.C.
Sugar refining	16.2	6.5	–12.6	–34.4	–33.6	–32.0	–50.9	–41.3	–45.2	–44.5	–32.3
TOBACCOS, CIGARS AND CIGARETTES	N.C.	N.C.	N.C.	N.C.	–0.1	2.0	2.0	3.4	3.4	3.4	3.4
RUBBER GOODS INCL. FOOTWEAR	–0.5	–1.5	–0.7	–0.4	–0.3	0.1	1.1	0.2	1.1	0.2	3.8
LEATHER PRODUCTS											
Leather footwear	0.3	0.4	0.4	0.4	0.4	1.8	2.2	2.0	2.1	2.1	2.1
TEXTILE MILLS											
Cotton yarn and cloth	–1.2	–1.1	–1.1	–0.6	–0.8	–1.0	–0.3	0.1	N.C.	0.1	0.1
Woollen cloth	11.6	11.4	11.0	11.0	11.4	11.4	6.1	2.6	2.6	2.7	2.7
Synthetic textiles and silk	1.6	0.9	0.8	0.3	–1.1	–0.4	–0.1	–0.8	0.3	0.6	0.4

(continued)

TABLE V (continued)

	1963-1964							1964-1965			
	March	*April*	*May*	*June*	*July*	*Sept.*	*Dec.*	*March*	*April*	*May*	*June*
CLOTHING AND KNITTING MILLS											
Men's factory clothing	0.8	1.6	1.6	1.6	1.6	1.5	2.6	2.9	2.3	2.3	2.3
Hosiery	0.7	0.9	0.9	0.7	0.5	N.C.	N.C.	–0.3	–0.6	–0.6	–0.5
Other knitted goods	–7.3	–7.3	–7.5	–8.3	–7.3	–7.3	–0.6	–1.0	–1.0	–1.0	–0.1
PAPER PRODUCTS											
Paper boxes and bags	2.0	2.0	2.3	1.7	1.5	1.1	0.4	–0.3	–0.2	0.5	0.4
Pulp mills	5.5	4.7	4.6	4.4	3.1	2.2	1.4	3.1	2.8	2.8	3.0
Paper mills	0.4	0.5	0.4	0.4	0.4	N.C.	–0.5	N.C.	–0.1	N.C.	0.2
PRODUCTS OF PETROLEUM AND COAL											
Coke and gas products	N.C.	N.C.	0.7	0.7	1.1	0.9	0.9	0.9	0.9	0.2	0.2
Petroleum refining	2.5	2.6	1.5	1.4	0.7	–1.0	–3.1	–2.4	–2.4	–2.4	–2.3
CHEMICALS AND ALLIED PRODUCTS											
Acids, alkalies and salts	0.1	0.6	0.4	0.3	0.5	–0.1	0.6	0.4	N.C.	–0.5	–0.3
Fertilizers	2.3	2.1	2.1	2.2	2.3	1.8	2.5	2.8	3.1	2.9	3.0
Medicinal and pharmaceuticals	–0.3	–0.1	–0.1	N.C.	–1.0	–1.6	–2.2	0.6	–0.2	–0.3	–1.1
Paints, varnishes and lacquers	–0.5	–0.2	0.3	0.3	0.3	0.1	0.1	0.7	0.5	0.5	0.5
Soaps, washing compounds and cleaners	–0.4	–1.2	–0.9	–0.5	–0.4	1.9	3.6	3.3	4.2	3.2	3.2
(B)											
DURABLE GOODS											
WOOD PRODUCTS											
Veneers and plywoods	3.3	0.3	0.8	0.8	0.9	2.7	1.4	2.7	3.3	2.3	2.5
Sash, door and planing mills	2.4	2.6	2.5	2.7	1.7	3.0	3.8	3.0	2.6	3.5	3.4
Lumber mills	5.1	4.9	4.6	2.6	0.9	0.4	–0.5	1.0	N.C.	0.2	0.9
Furniture	2.0	2.0	2.1	2.2	1.7	2.3	2.4	0.1	0.1	0.2	N.C.
IRON AND STEEL PRODUCTS											
Agricultural implements	0.3	–0.3	–0.3	–0.3	–0.3	–0.3	–0.7	–0.6	–0.6	–0.6	–0.6
Heating and cooking apparatus	–0.3	0.5	0.4	1.0	0.4	–0.6	N.C.	–1.3	–1.4	–1.4	–1.5
Household, office and store machinery	0.3	N.C.	0.6	0.7	0.8	0.1	–0.9	0.2	0.2	0.2	0.5
Iron castings	0.1	–0.2	–0.2	–0.3	–0.5	–0.2	–0.1	2.1	2.3	2.6	3.0
Pig iron	N.C.	N.C.	1.1	1.1	N.C.	N.C.	N.C.	N.C.	1.0	–0.6	–0.6
Steel ingots and castings	0.3	–0.6	0.3	1.3	0.8	–1.4	2.5	–0.7	0.4	2.0	2.6
Rolled iron and steel products	–0.4	–0.4	–0.4	–0.4	–0.4	–0.4	0.1	1.0	2.8	3.3	3.5
Wire and wire goods	1.1	1.3	1.2	1.2	1.3	1.3	1.7	1.6	2.2	2.8	3.2
TRANSPORTATION EQUIPMENT											
Motor vehicles	0.6	0.8	0.7	0.8	0.8	0.7	–0.9	–1.0	–0.9	–0.7	–1.2
Motor vehicle parts industry	N.C.	0.6	0.6	0.6	–0.3	–1.0	–0.4	0.4	–0.1	–0.4	0.5
NON-FERROUS METAL PRODUCTS											
Aluminum products	3.1	3.6	3.6	3.7	3.7	3.3	2.4	2.7	3.1	3.1	2.7
Brass and copper products	1.2	4.0	4.2	3.4	3.2	8.7	10.9	10.6	7.7	13.6	14.0
Smelting and refining	6.7	7.9	9.5	9.9	10.4	10.1	7.7	6.0	3.6	2.6	2.0
ELECTRICAL APPARATUS AND SUPPLIES											
Heavy electrical machinery	0.8	1.7	0.9	1.6	–0.4	0.4	–1.4	–2.6	–2.8	–1.8	–1.3
Refrigerators, vacuum cleaners and appliances	–2.2	–2.8	–2.7	–2.2	–2.2	–2.2	–2.2	N.C.	0.1	0.1	–0.1
Wires and cables	4.4	5.7	4.9	4.8	4.4	8.2	9.1	6.7	4.5	8.6	8.5
NON-METALLIC MINERAL PRODUCTS											
Artificial abrasives	0.3	–0.3	–0.3	–0.3	–0.3	–0.3	–0.3	–0.1	–0.1	0.1	–0.1
Concrete products	5.2	5.3	5.1	3.4	3.1	4.2	2.6	5.1	4.4	4.3	4.4
Clay products and domestic clay	–0.2	0.7	0.7	0.7	0.7	0.7	–0.1	0.6	1.0	1.0	1.0

Source: Prices and Price Indexes, D.B.S.

administration and the Federal Reserve Board in the United States to clamp down hard on the 1959 expansion, bringing the expansion to a premature close in 1960. By restraining the expansion in aggregate demand, the U.S. government held business to high unit cost and low profit levels of underutilization of capacity, and business therefore had little incentive to expand capacity. This situation resulted in low U.S. demand on Canadian resources. During the present expansion, the U.S. administration and Federal Reserve Board have encouraged expansion in aggregate demand, so that business has been lifted to the lower unit cost and higher profit levels of optimum utilization of capacity, with further increases in demand in sight. As a result, business has had a strong incentive to increase capacity. Canadian expansion has taken place within the context of this buoyant economic situation in the U.S. during 1964 and 1965.

The question one may ask is how Canadian price movements during the recent growth acceleration compare with those during the 1956-1957 period which led to the restraints on North American expansion. The comparisons are set out in Table VII. It is clear that the one sector in which price movements have not compared favourably (through the first quarter this year, seasonally adjusted) with the 1956-1957 period, has been business gross fixed capital formation. There are three main reasons for this result. In the first place, the most rapid expansion has been in demand for investment goods. Second, there has been the $500 winter housing bonus which has helped raise prices on houses. Third, there has been the extension of Federal sales tax to construction materials and machinery and equipment.

It might be thought the rise of 2.7 per cent for GNE from the first quarter 1964 to the first quarter 1965, seasonally adjusted, does not compare particularly favourably with the rise of 3.0 per cent in 1957. The reason for this is that imports are deducted from total domestic and export demand to obtain GNE, and in 1957 there was a strong import price rise to be deducted, whereas this year there was a negative import price change to be deducted from, which means a net addition to the GNE price change. By adding imports back in and deducting exports, we obtain results that indicate the price changes that were occurring in the domestic markets. The calculations show prices rose 2.2 per cent in both the recent periods for Gross Domestic Expenditure compared with considerably higher rises in the period of inflation. It is clear that there has been considerable improvement regarding stability of domestic market prices (GDE), particularly in terms of imported goods and services, government expenditure for goods and services, and consumer goods and services — at least up to the first quarter this year, seasonally adjusted.

Unfortunately, however, the statistics of the implicit price indexes for consumer goods and services in the national accounts, as shown in Table VII, do not extend beyond the first quarter of this year, seasonally adjusted. A comparison using the consumer price index, also published by D.B.S., is shown in Table VIII.

The statistics of percentage change in Table VIII show there is considerable difference in mixture between the last post-war period of inflation and the price rises from the period just prior to the present boom to the latest price statistics in the boom. Regarding the total index, over the two-year period from 1955 to 1957 the rise in the aggregate was 4.7 per cent, and from May, June, July 1963 to May, June, July 1965 the rise was 4.4 per cent. The price rises for clothing and for tobacco and alcohol have been sharper, while the rise for housing has been identical. The price increases for food and for health and personal care have been somewhat less in the current boom. The major difference has been in transportation, owing to the steady declines in prices of new motor vehicles in this cycle.

Conclusion

Several different approaches have been utilized in the attempt to put recent price movements in perspective. In comparing them with the trends from 1957 to 1963 extrapolated into 1965, all series except consumer durables and consumer services were found to be running above their trends from the slow growth period. Recent declines in export and import prices were also noted, with import prices dropping below trend in the latest quarter. The most marked deviations above the trends were found in the investment category where the boom has been most noticeable. At this point the statistics on the full range of aggregate trends are available only up to the first quarter, seasonally adjusted.

The statistics on manufacturing industry selling prices are available through June of this year, and up to that point it would have been difficult to detect any systematic tendency towards generally rising prices in manufacturing.

Most wholesale price indexes are available to July. The indexes show a considerable discrepancy between building materials, on the one hand, and wood products and non-metallic mineral products, on the other. However, the building materials rise slowed down in the April-May period. The general

TABLE VI

SUMMARY OF RECENT TENDENCIES IN PRICE INDEXES, BY INDUSTRY

Accelerating at a high level	*Accelerating at a low level*	*Decelerating at a high level*	*Decelerating at a low level*	*Declining*
Slaughtering	Leather	Woollen	Bread	Fruit and vegetable
Tobacco	Cotton	Pulp mills	Distilled liquors	Flour mills
Rubber	Synthetic textiles	Veneers	Breweries	Sugar
Men's clothing	Paints	Smelting	Paper boxes	Hosiery
Fertilizers	Steel ingots	Concrete	Paper mills	Other knitted goods
Soaps	Refrigerators		Coke and gas	Petroleum
Sash and door	Clay		Lumber	Acids
Iron castings			Furniture	Medicinal
Rolled iron				Agric. implements
Wire (iron)				Heating apparatus
Aluminum				Pig iron
Brass				Motor vehicles
Wire (N-F)				Motor vehicle parts
				Heavy elect. equip.
				Abrasives

Note: "High level" refers to a substantial rise over 1964, and "low level" refers to a modest rise over 1964.

TABLE VII

YEAR-TO-YEAR PERCENTAGE INCREASES IN IMPLICIT PRICE INDEXES FOR CANADA

	1955-1956	*1956-1957*	*1963-1964*	*IQ 1964 to IQ 1965*
Consumer Goods and Services, total	1.8	3.4	1.5	1.4
Non-durable goods	1.0	2.7	1.7	0.9
Durable goods	1.3	4.2	–1.1	–0.8
Services	3.1	4.3	2.2	2.9
Government Expenditure for Goods and Services, total	5.5	5.2	2.6	2.9
Current expenditures	5.9	5.3	N.A.	N.A.
Capital expenditures	4.8	4.7	N.A.	N.A.
Business Gross Fixed Capital Formation, total	5.3	3.5	3.6	4.6
New residential construction	3.7	2.7	5.7	5.2
New non-residential construction	5.3	3.0	2.7	4.6
New machinery and equipment	6.2	4.6	3.2	4.7
Exports of Goods and Services	2.8	–0.5	2.3	0.6
Imports of Goods and Services	3.2	2.7	1.7	–0.8
Gross National Expenditure	3.9	3.0	2.3	2.7
Gross Domestic Expenditure	3.9	3.6	2.2	2.2

Source: National Accounts: Income and Expenditure, D.B.S.

TABLE VIII

PERCENTAGE INCREASES IN CONSUMER PRICE INDEXES FOR CANADA

					Two-Year Periods	
	1955-1956	*1956-1957*	*1963-1964*	*May, June, July 1964-1965*	*1955-1957*	*May, June, July 1963-1965*
Food	1.2	4.6	1.6	3.0	5.8	5.2
Housing	1.5	2.0	1.6	1.6	3.5	3.5
Clothing	0.6	–0.1	2.5	1.9	0.5	4.6
Transportation	4.1	5.4	1.1	3.5	9.6	4.5
Health and Personal Care	2.6	6.3	3.3	4.9	9.1	7.9
Recreation and Reading	2.2	3.6	1.7	2.1	5.9	3.8
Tobacco and Alcohol	0.3	1.6	1.8	1.9	1.9	3.9
Total	1.5	3.2	1.8	2.4	4.7	4.4

Source: Canadian Statistical Review, D.B.S.

wholesale index began accelerating towards the end of 1964, but by May 1965, it was little more than one per cent above the year-ago level – then sharp rises appeared in June and July. There is little sign of this latter acceleration among the non-farm product components available for this period. The main accelerating component is animal products, although there is additional evidence in the sudden rise in June and July for the thirty industrial materials. The acceleration in prices for both raw and partly manufactured products and fully and chiefly manufactured products is a reflection to some extent of the declines and slow rises at mid-year 1964, and otherwise primarily reflects price rises for animal products, slaughtering and meatpacking, and rubber goods.

In the comparison with the period of inflation (1956 and 1957) one finds relative stability to the first quarter this year except in business gross fixed capital formation. But later evidence on the consumer price index seems to indicate the emergence of some price acceleration around mid-year.

The pressure on supplies of skilled labour, as well as prices in the construction industry, have led the Federal government to announce postponement of five construction projects in major urban centres, to stretch out the period during which it will share costs of construction for the Trans-Canada Highway, sewage treatment projects and technical and vocational schools, as well as to advise close scrutiny of construction programs, and delays where scrutiny indicates this may be advantageous.

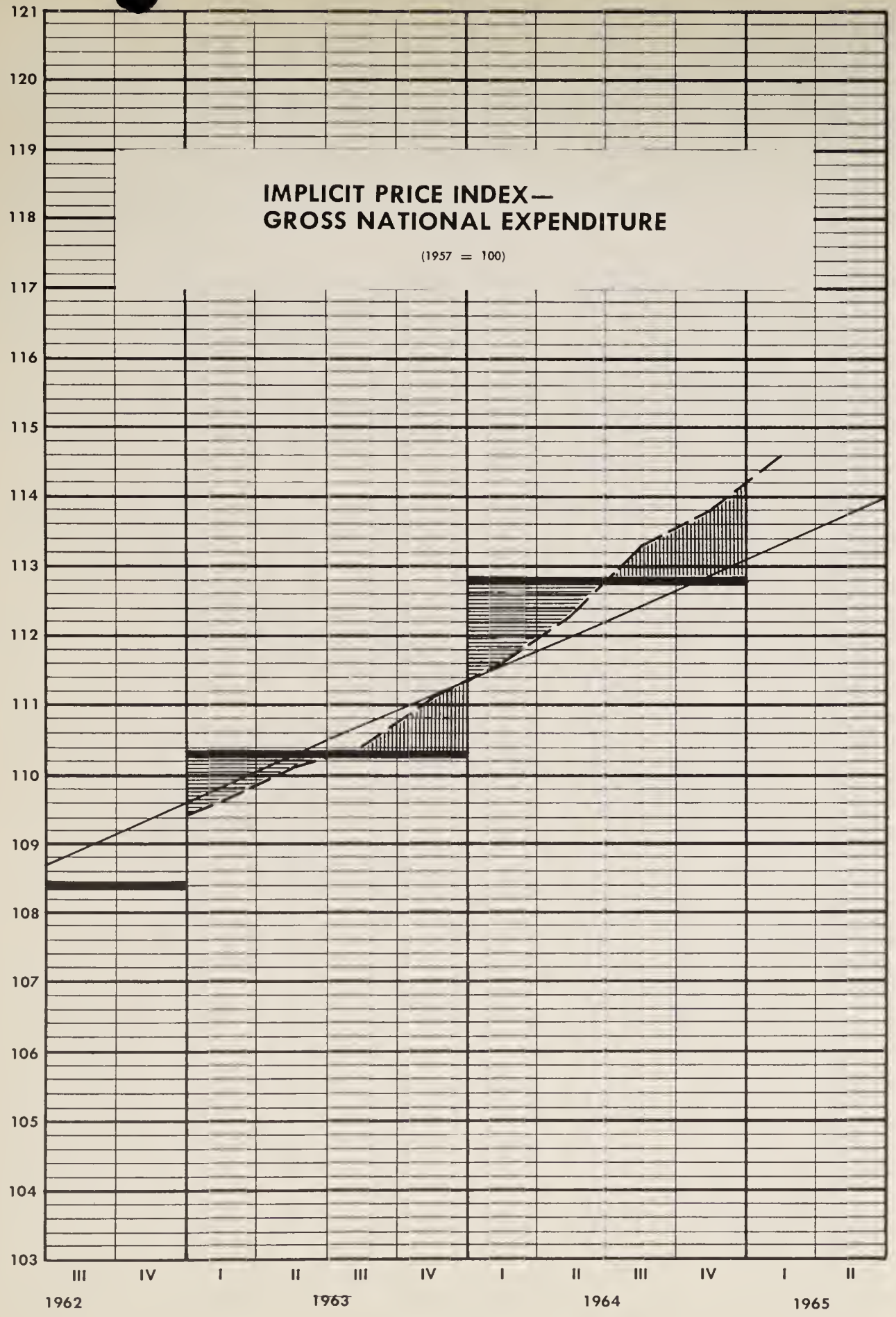
These are wise and cautious moves. The postponement of the five Federal projects will do no harm and they can be set in motion later as the situation permits. In the meantime, potential pressure has been relaxed a little in heavily committed urban areas, giving the construction industry a bit more time to mobilize its labour and equipment. Furthermore, the provincial and municipal governments will be reassured by the extended period of availability of cost-sharing, and it is always a good idea to scrutinize one's plans as to timing and scope when one encounters a changing situation. This is a flexible approach that leaves other decision-makers in a position to make pragmatic assessments and choices.

This does not mean that all problems have been resolved. The new Soviet wheat and flour contract plus the Vietnam War (depending on its duration and requirements) will tend to sustain growth in demand on Canadian labour, capital facilities and resources. But Canada, in common with the rest of the world, is confronted with a scarcity of qualified labour. The shortage of skilled, professional and managerial labour extends throughout all industrial sectors. There is no easy and quick solution to this situation. It is being confronted vigorously, but the problems are complex and require time. In the meantime, it is necessary to conserve labour by maintaining low inventories and obtaining maximum organizational efficiency, and to try to raise the productivity of the current labour supply also through avoiding misallocation of resources as well as through providing advanced technology. One implication of this requirement is that investments designed to make significant improvements in productivity and supply should be pressed forward, but that one would expect there would be close scrutiny, for the time being, regarding additional more-speculative plans for those urban areas that are already heavily committed. Outside these particular major urban areas there is not so much pressure on resources. Next year there should be a substantially larger increase in the labour force and the construction industry will be in a position to achieve further large gains in output on top of the 30 per cent increase during 1964-1965.

I

IMPLICIT PRICE INDEX— GROSS NATIONAL EXPENDITURE

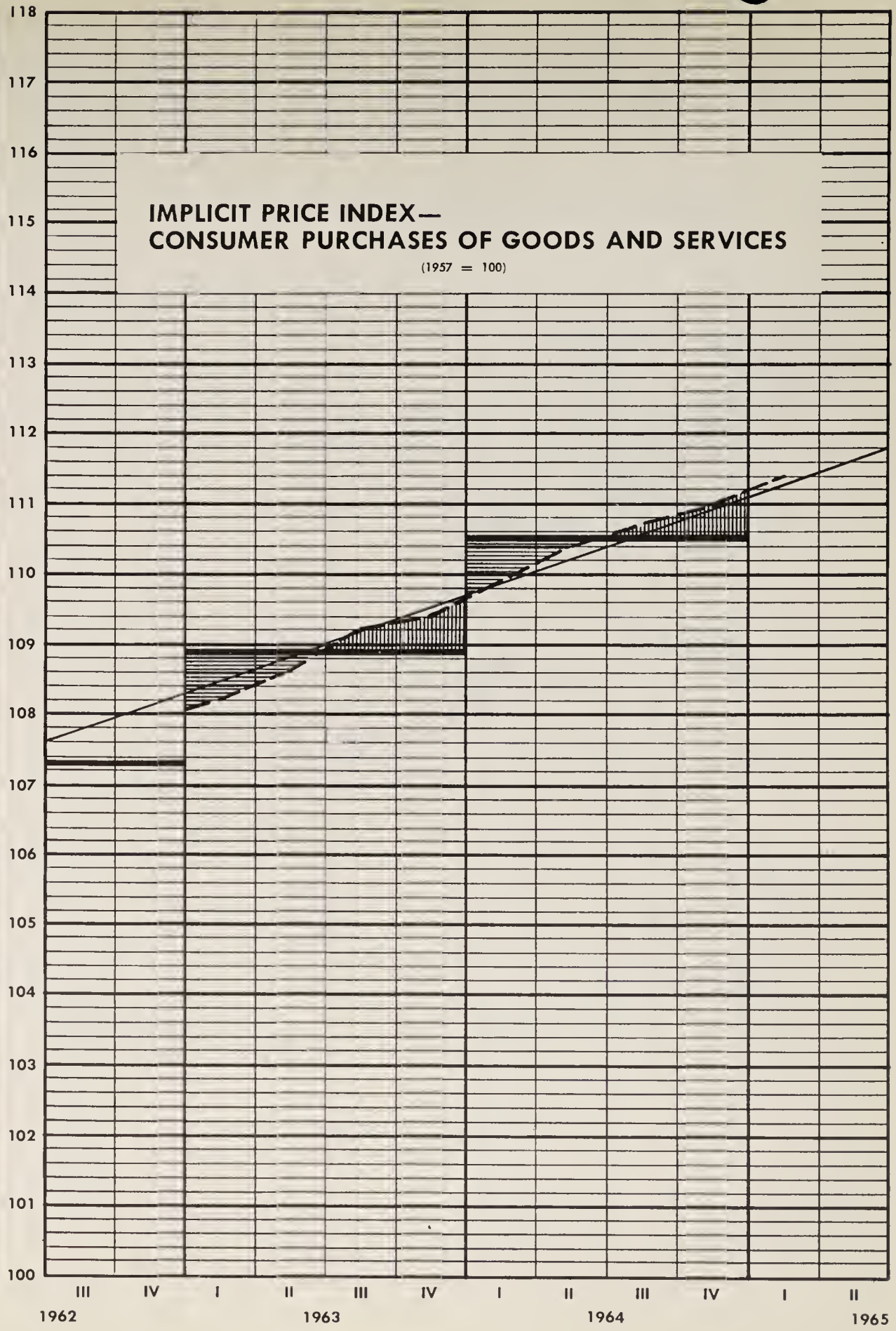
(1957 = 100)



II

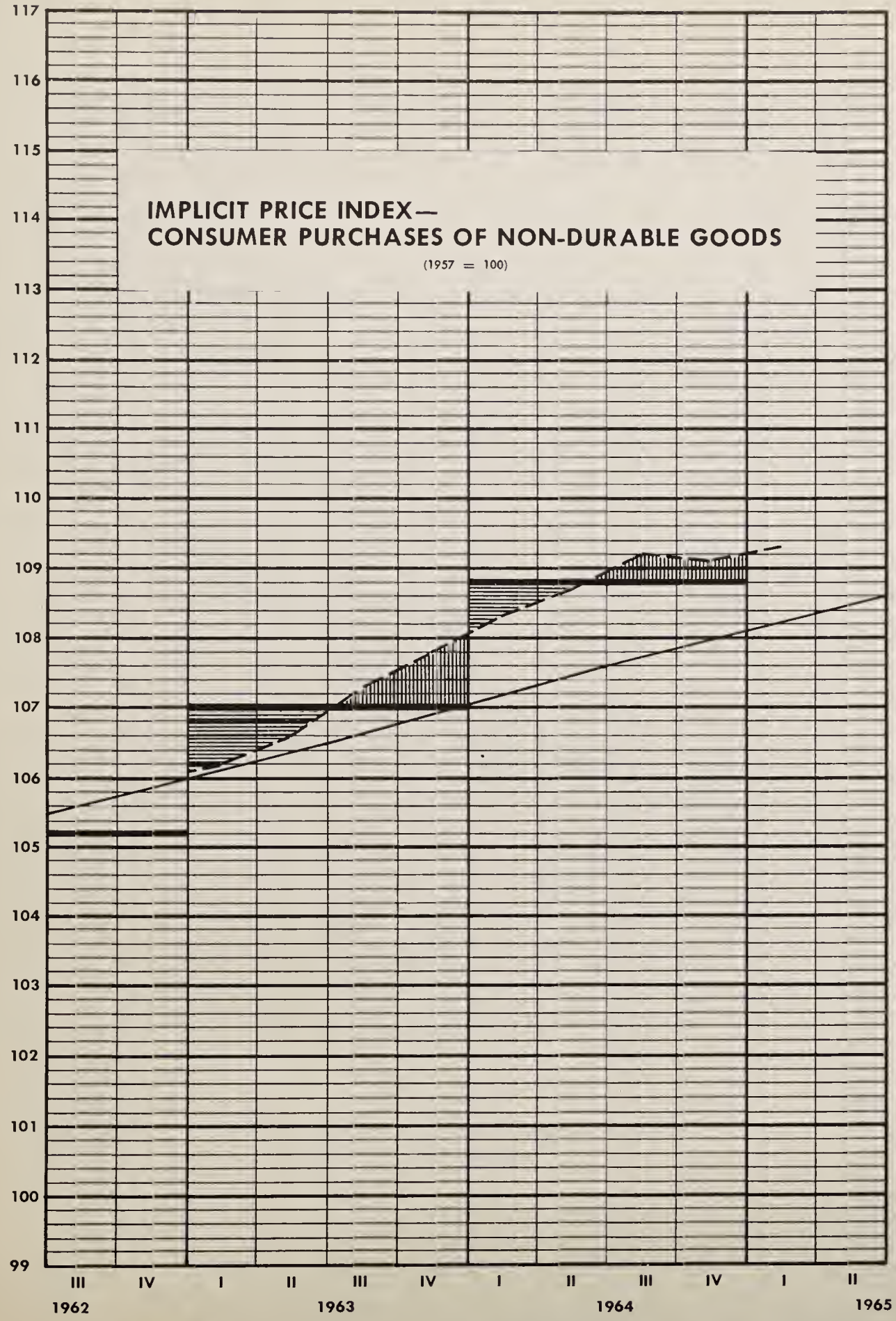
IMPLICIT PRICE INDEX— CONSUMER PURCHASES OF GOODS AND SERVICES

(1957 = 100)

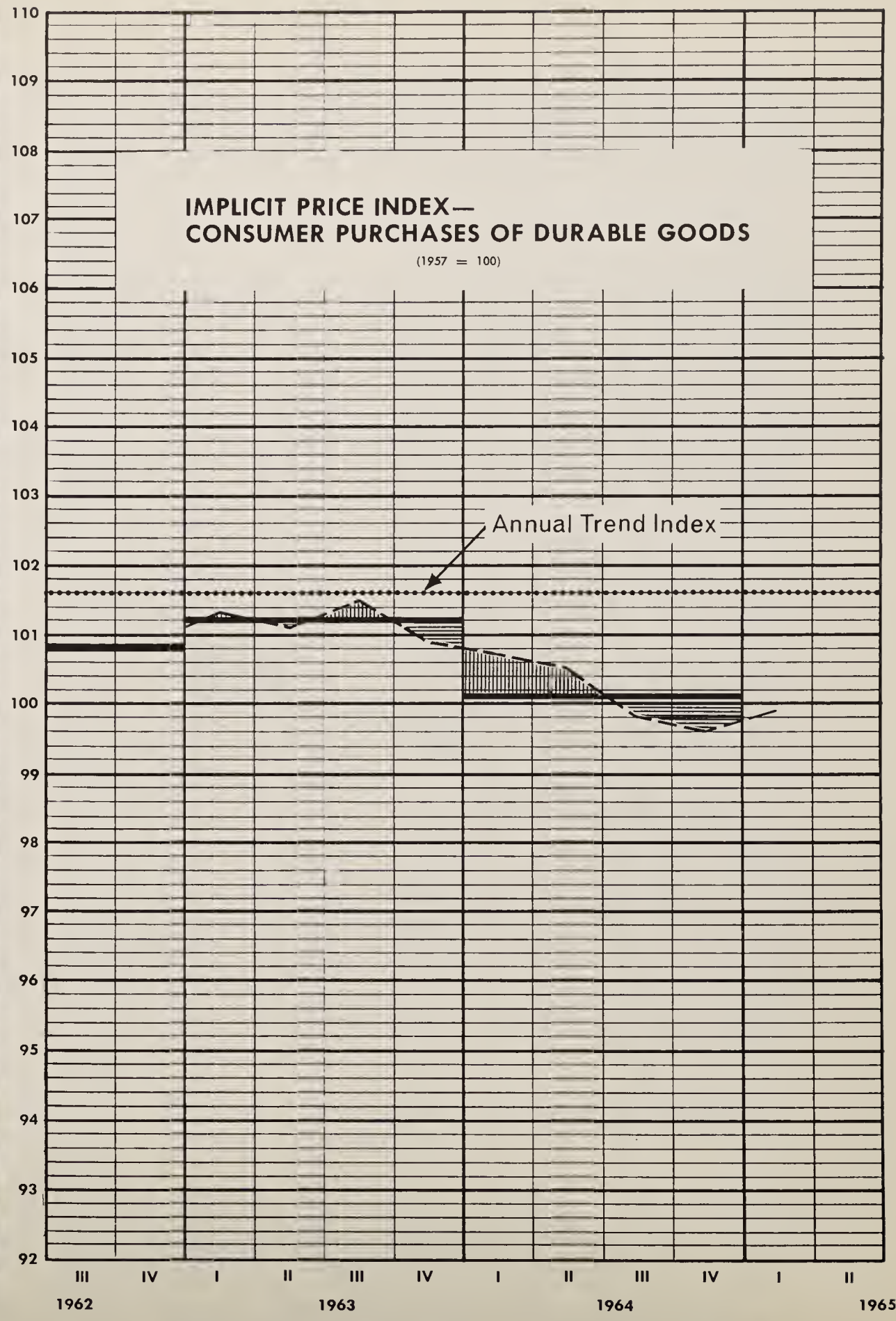


Annual Index ▬▬ Quarterly Index — — — Annual Trend Index ——

III



IV

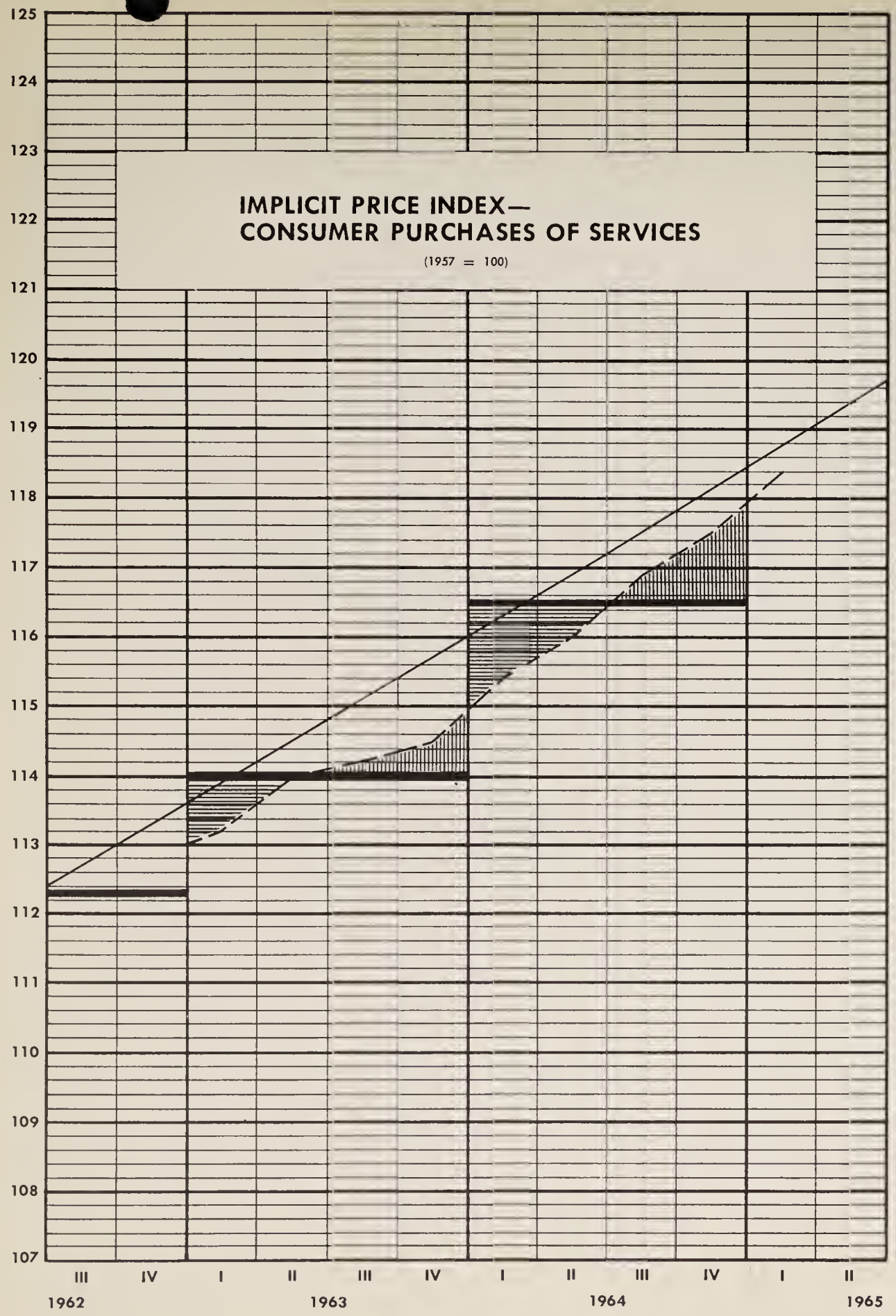


Annual Index ▬▬ Quarterly Index — — — Annual Trend Index ——

V

IMPLICIT PRICE INDEX— CONSUMER PURCHASES OF SERVICES

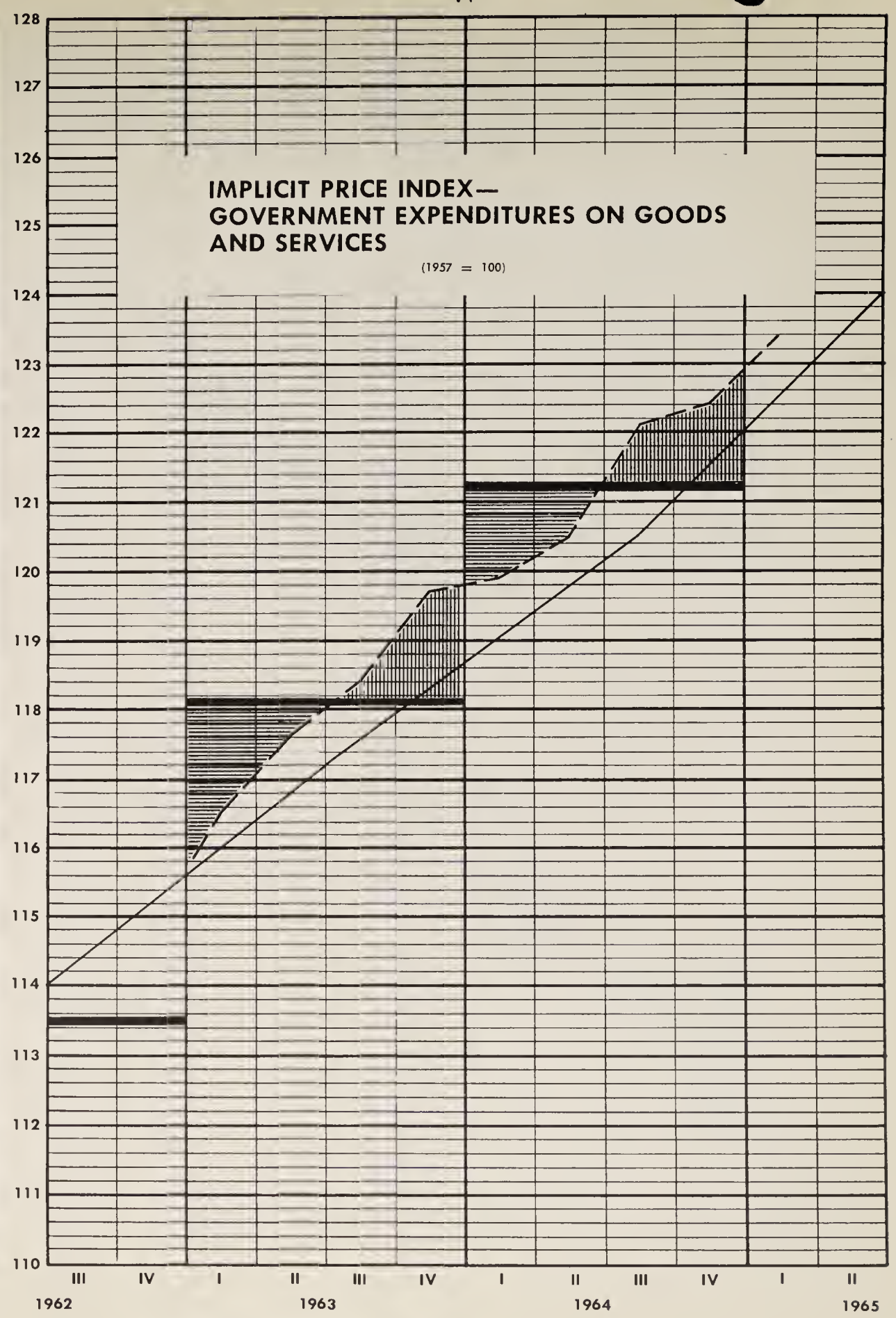
(1957 = 100)



VI

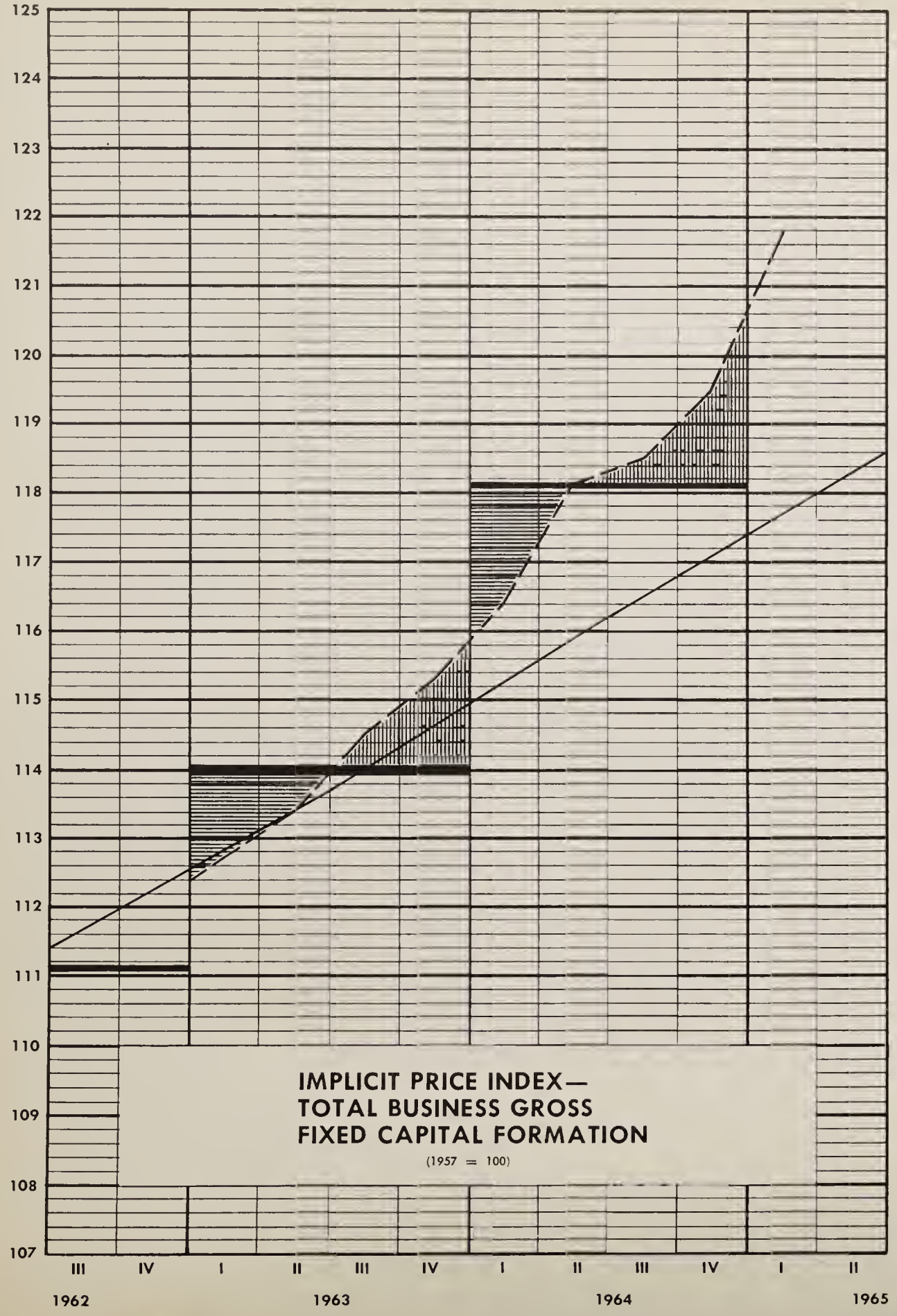
IMPLICIT PRICE INDEX— GOVERNMENT EXPENDITURES ON GOODS AND SERVICES

(1957 = 100)



Annual Index ▬▬ Quarterly Index — — — Annual Trend Index ——

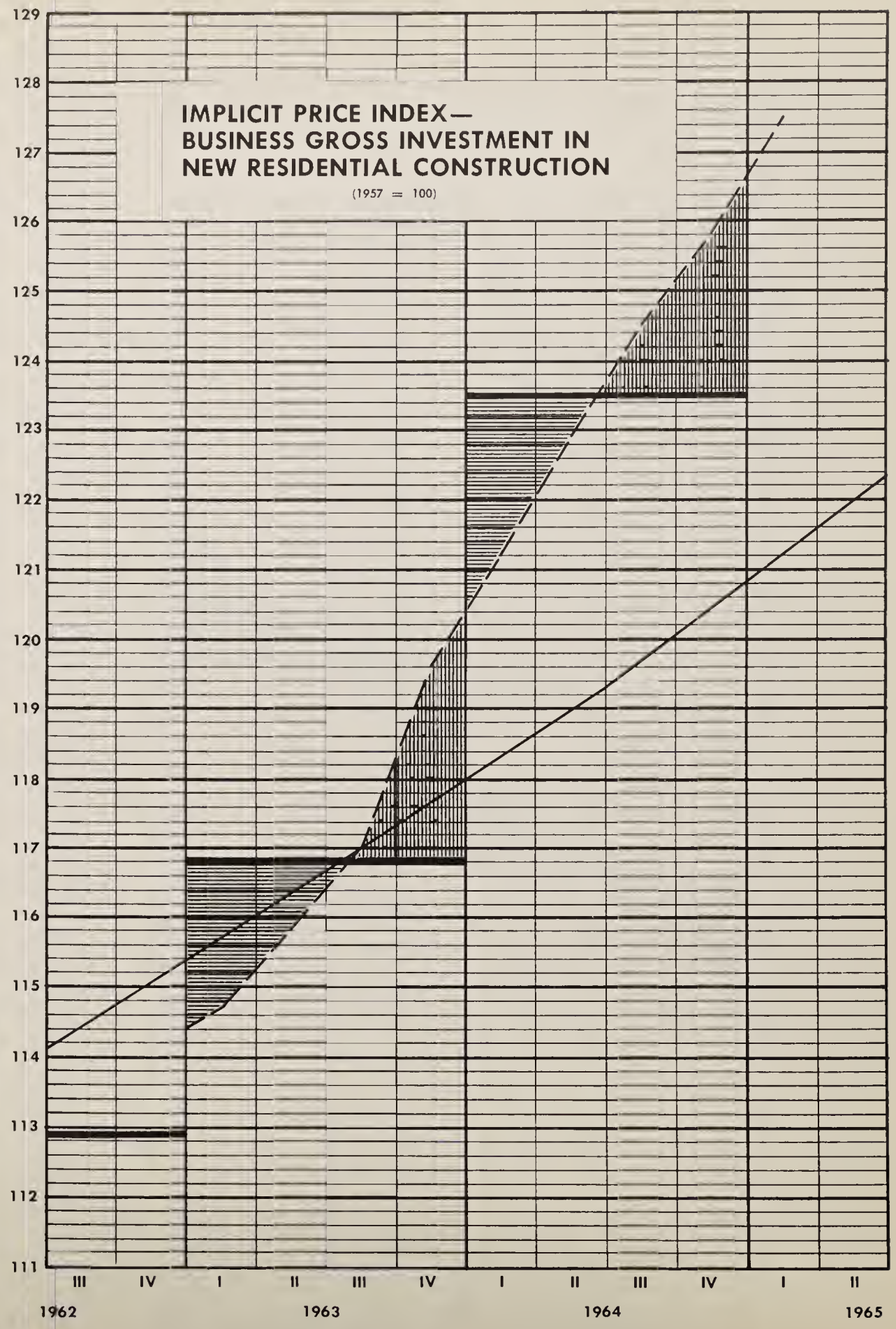
VII



**IMPLICIT PRICE INDEX—
TOTAL BUSINESS GROSS
FIXED CAPITAL FORMATION**

(1957 = 100)

VIII



**IMPLICIT PRICE INDEX—
BUSINESS GROSS INVESTMENT IN
NEW RESIDENTIAL CONSTRUCTION**

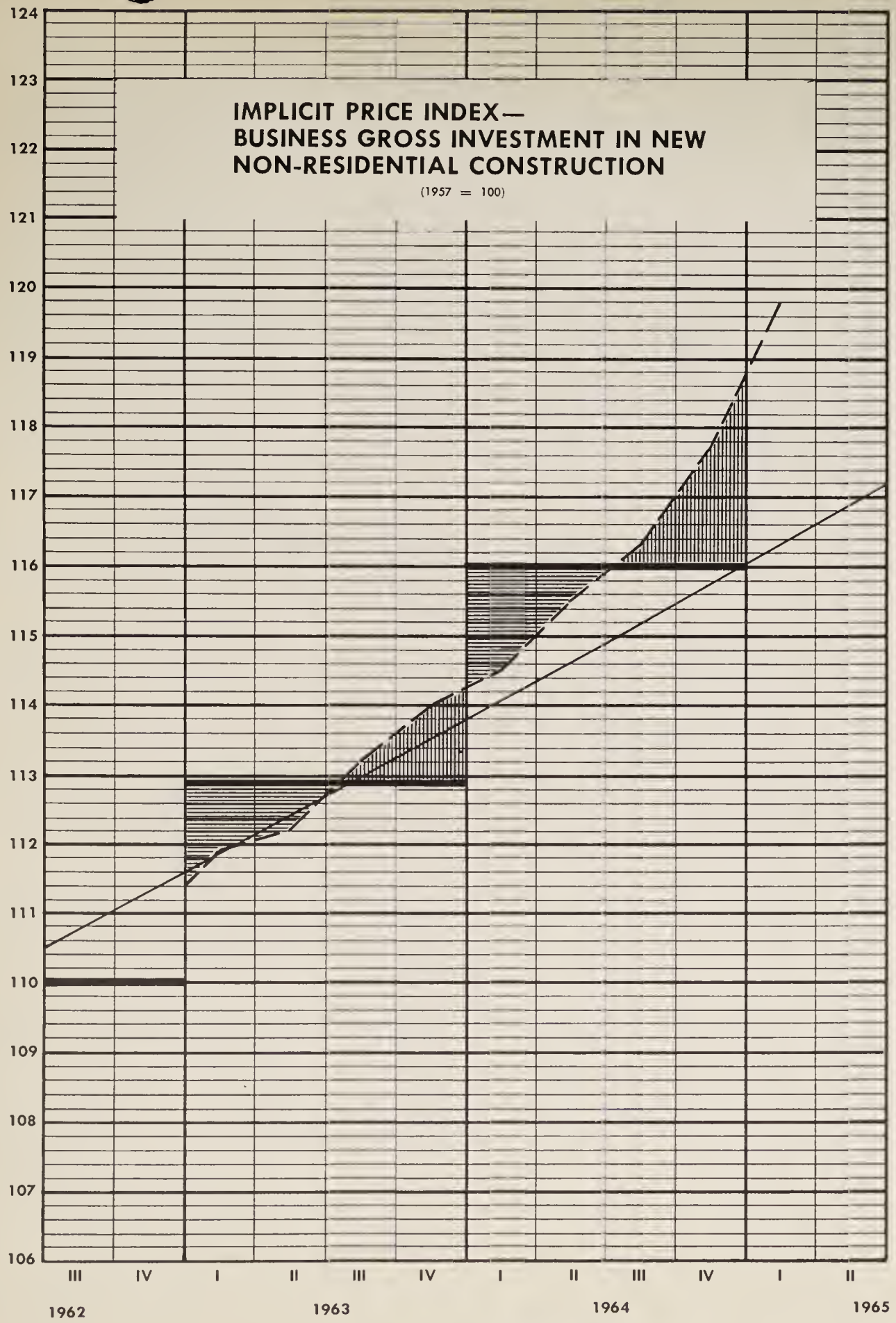
(1957 = 100)

Annual Index ▬▬ Quarterly Index — — — Annual Trend Index ———

IX

IMPLICIT PRICE INDEX— BUSINESS GROSS INVESTMENT IN NEW NON-RESIDENTIAL CONSTRUCTION

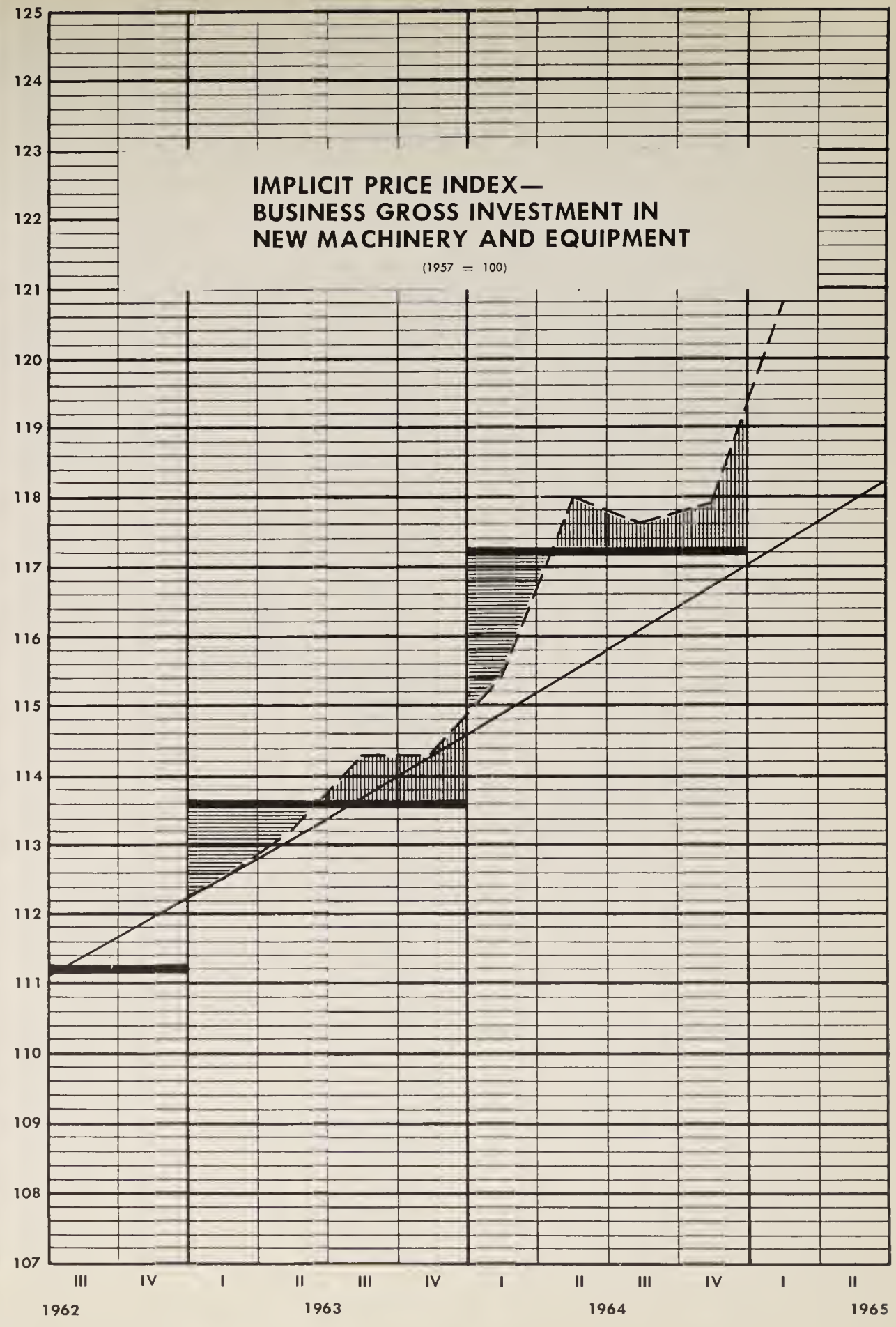
(1957 = 100)



X

IMPLICIT PRICE INDEX— BUSINESS GROSS INVESTMENT IN NEW MACHINERY AND EQUIPMENT

(1957 = 100)

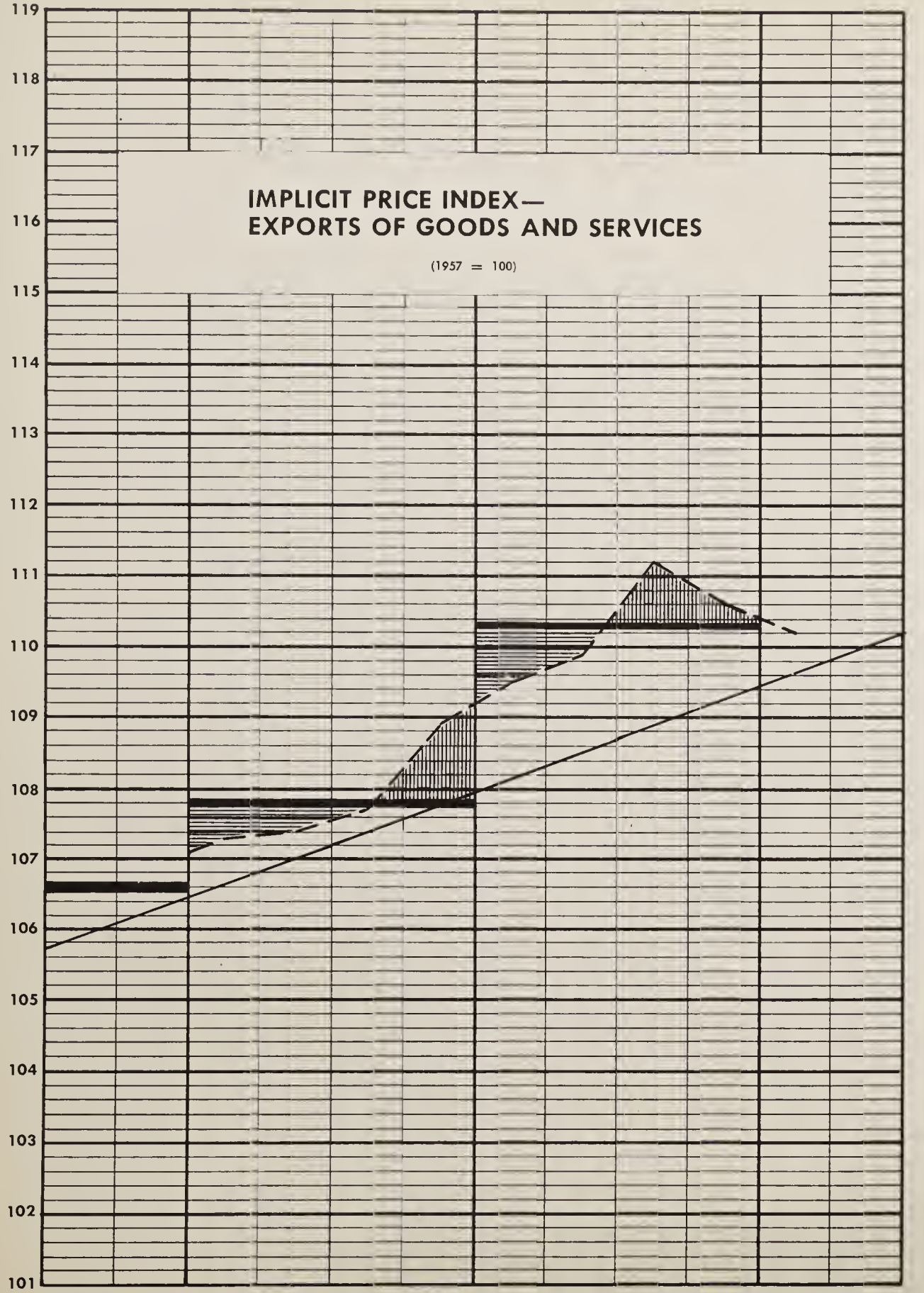


Annual Index ▬▬ Quarterly Index — — — Annual Trend Index ——

XI

IMPLICIT PRICE INDEX— EXPORTS OF GOODS AND SERVICES

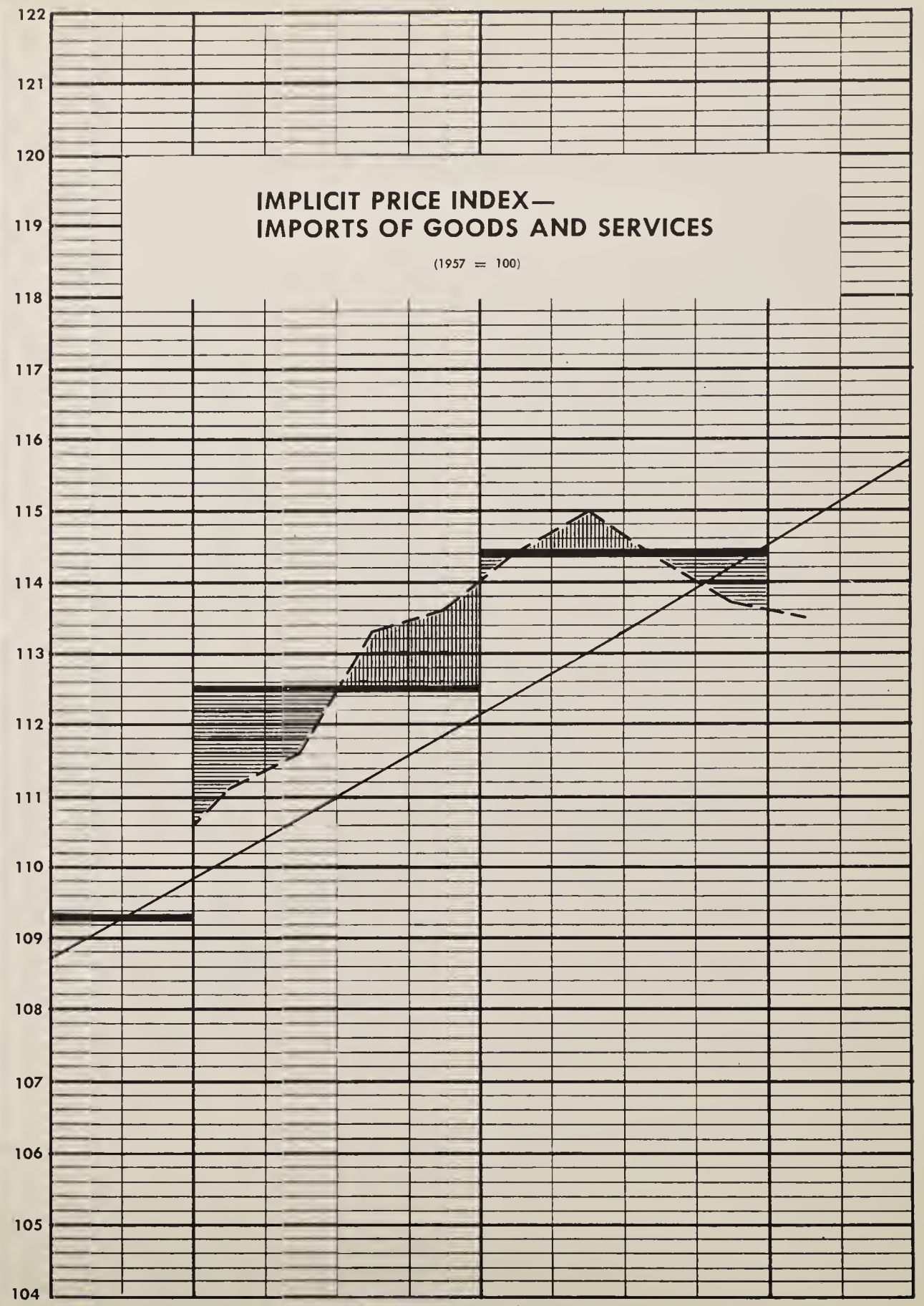
(1957 = 100)



XII

IMPLICIT PRICE INDEX— IMPORTS OF GOODS AND SERVICES

(1957 = 100)



Annual Index ▬▬ Quarterly Index — — — Annual Trend Index ——

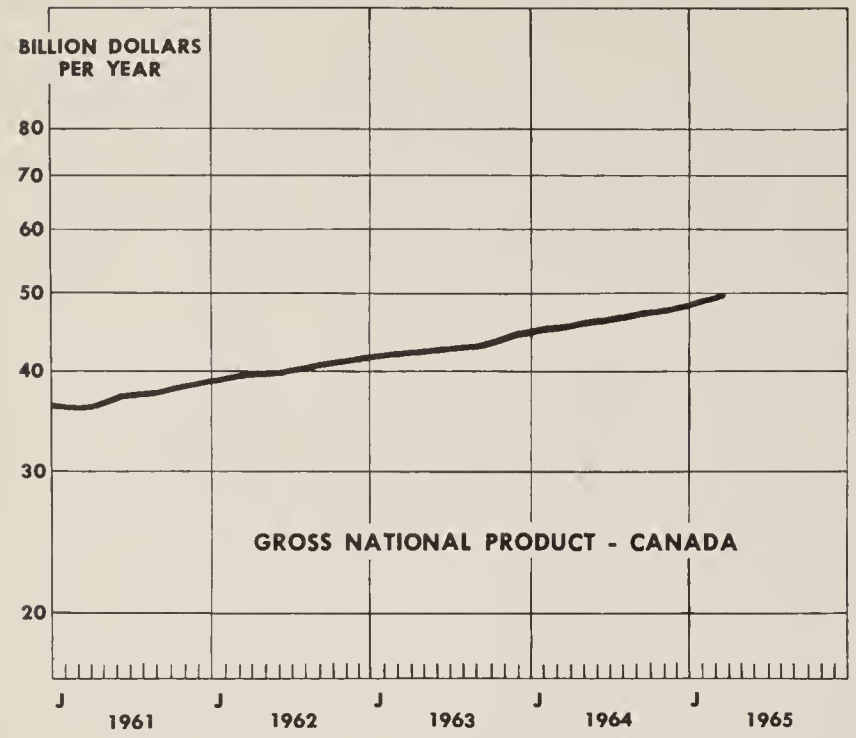
ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

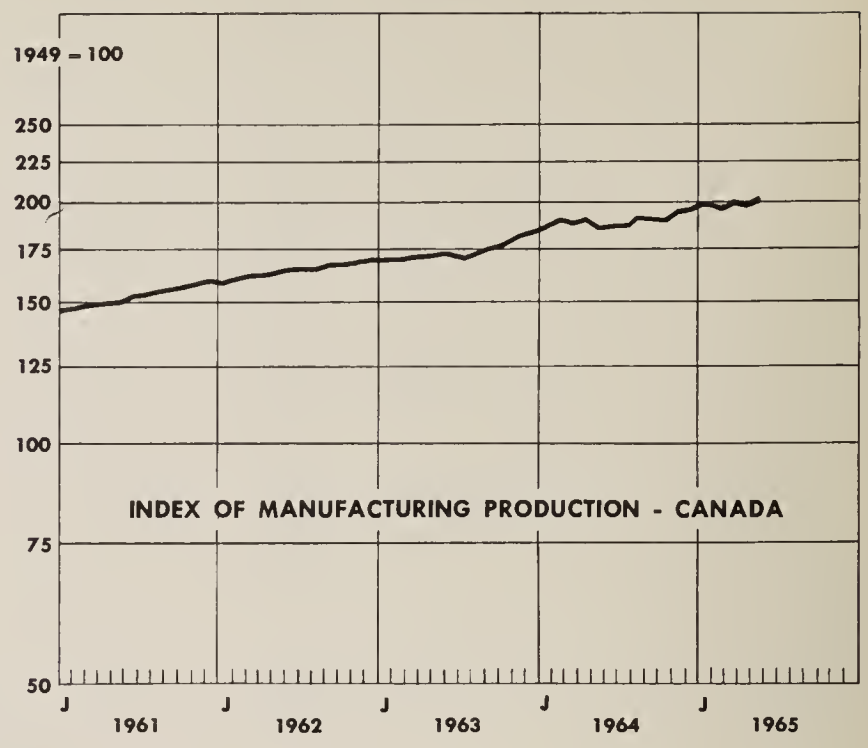
(* Figures for Canada)

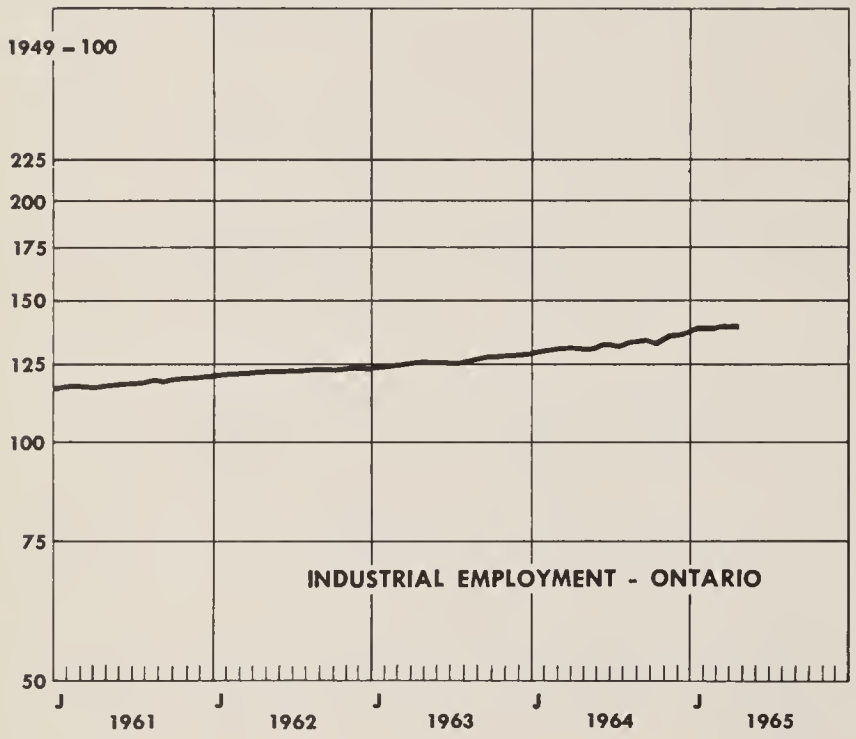
LEADING INDICATORS		1964 May	June	July	August	September	October	November	December	1965 January	February	March	April	May	June
Average Weekly Hours Worked in Manufacturing	(No.)	41.3	41.1	40.8	41.1	41.3	41.1	40.8	41.3	41.1	40.4	41.5			
New Dwelling Unit Starts	(No.)	4,087	4,238	5,213	4,626	4,068	5,303	5,962	5,559	4,318	5,798	5,006	3,916	5,118	
Business Failures	(No.)	80	102	95	81	77	97	59	84	93	73	108	64	89	74
Business Failures - Liabilities	$ Million	12.0	12.8	10.4	2.7	8.6	8.2	2.9	1.8	3.0	4.6	8.0	4.5	9.2	8.1
New Orders in Manufacturing*	$ Million	2,506	2,549	2,554	2,591	2,603	2,623	2,775	2,770	2,677	2,792	2,865	2,828		
Housing Contracts	$ Million	56.9	40.1	57.6	44.9	47.7	51.3	71.7	75.7	100.3	49.2	58.7	76.2	50.2	71.2
Business, Industrial and Engineering Contracts	$ Million	104.9	81.5	109.6	97.5	71.8	89.9	93.6	120.3	133.1	76.8	114.3	124.6	119.5	122.3
Money Supply*	$ Million	17,095	17,176	17,346	17,448	17,517	17,391	17,502	17,610	17,855	18,047	18,271	18,575	18,758	18,795
T.S.E. Index - 77 Stocks	1956=100	155.3	158.9	160.5	156.6	169.6	171.2	166.0	164.3	173.3	171.9	169.3	172.1	173.2	165.6
COINCIDENTAL AND LAGGING INDICATORS															
New Dwelling Unit Completions	(No.)	3,454	3,095	4,876	3,798	4,519	4,160	2,969	3,013	2,817	4,330	9,696	7,218	4,136	
Average Hourly Earnings in Manufacturing	$	2.11	2.13	2.13	2.16	2.17	2.15	2.14	2.16	2.19	2.19	2.22			
Gross National Product*	$ Million	--	46,684	--------		47,392	--------		48,016	--------		49,676			
Cheques Cashed in Clearing Centres	$ Million	3,705	3,749	3,602	3,620	3,891	3,789	3,600	3,688	3,708	4,058	4,113	4,118		
Retail Trade	$ Million	621	602	608	611	610	623	618	635	630	636	641	648	679	
Labour Income	$ Million	803	810	819	825	838	832	840	840	859	858	878	883		
Industrial Employment	1949=100	131.4	132.6	131.7	134.2	134.6	133.5	136.2	136.8	138.1	138.4	139.6	139.2		
Total Industrial Production*	1949=100	210.2	211.0	211.6	214.6	214.4	215.1	220.9	221.1	224.3	223.1	226.7	225.5	226.0	
Total Manufacturing		186.0	185.3	186.7	190.8	190.2	189.1	194.5	194.4	197.2	195.9	199.4	198.2	200.4	
Non-Durables		182.1	183.1	181.8	184.4	185.0	187.1	191.0	192.7	191.4	189.8	188.9	189.4	193.4	
Durables		190.5	187.8	192.6	198.3	196.3	191.4	198.6	196.4	203.9	203.1	211.8	208.6	208.5	
Mining		325.5	329.4	321.3	318.9	315.3	326.7	341.2	338.1	348.3	343.3	347.5	348.5	333.5	
Electric Power & Gas Utilities		384.5	405.4	407.4	403.7	416.1	426.9	421.8	434.1	429.6	437.4	441.8	436.3	440.3	
Primary Energy Demand (Annual Rate)	BKWH	39.33	40.98	41.01	39.79	41.08	41.81	41.29	41.72	42.13	42.86	43.46	42.52	42.14	(i) 43.06
ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED															
Domestic Exports*	$ Million	670.5	774.7	772.4	674.1	724.0	669.9	706.6	714.2	569.2	538.3	685.5	645.5		
Imports for Consumption*	$ Million	657.7	687.6	637.9	566.2	616.9	636.8	673.4	656.3	559.8	555.0	731.1	699.8	735.1	
Foreign Exchange Reserves*	US $ Million	2,509	2,534	2,534	2,576	2,625	2,687	2,743	2,674	2,668	2,649	2,554	2,567	2,499	2,480
Prices, Industrial Materials*	1935-39=100	258.7	257.8	257.3	259.9	258.8	258.0	258.5	256.2	256.7	255.3	256.3	256.6	258.5	262.4
Labour Force	000's	2,541	2,620	2,663	2,661	2,559	2,561	2,567	2,563	2,555	2,527	2,535	2,548	2,595	2,683
Employed	000's	2,471	2,532	2,588	2,593	2,504	2,487	2,506	2,487	2,457	2,434	2,456	2,468	2,536	2,609
Unemployed	000's	70	88	75	68	55	74	61	76	98	93	79	80	59	74
Unemployed as % of Labour Force	%	2.8	3.4	2.8	2.6	2.1	2.9	2.4	3.0	3.8	3.7	3.1	3.1	2.3	2.8

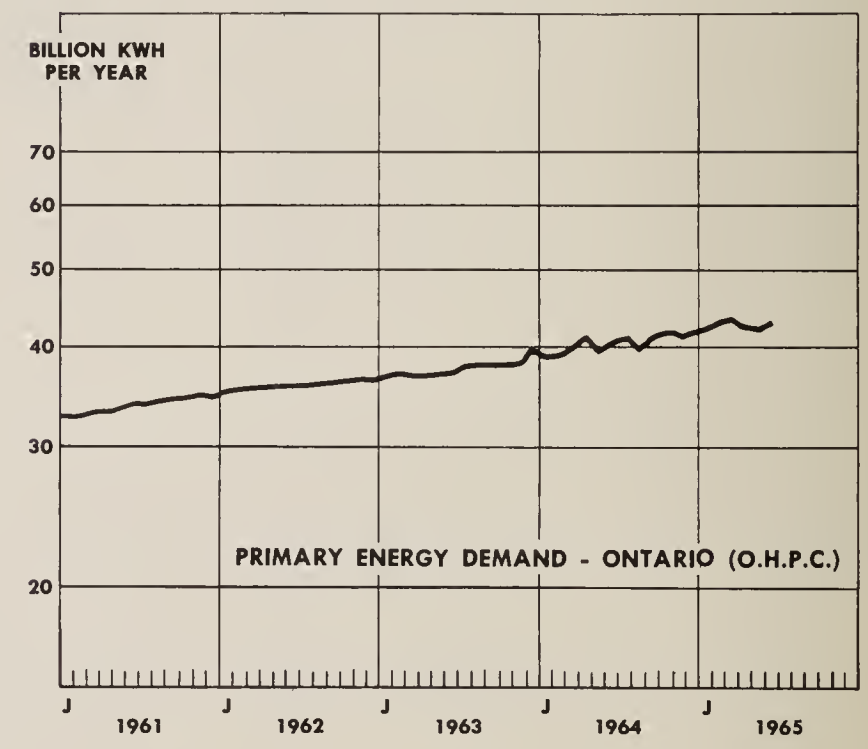
(i) Revised figure

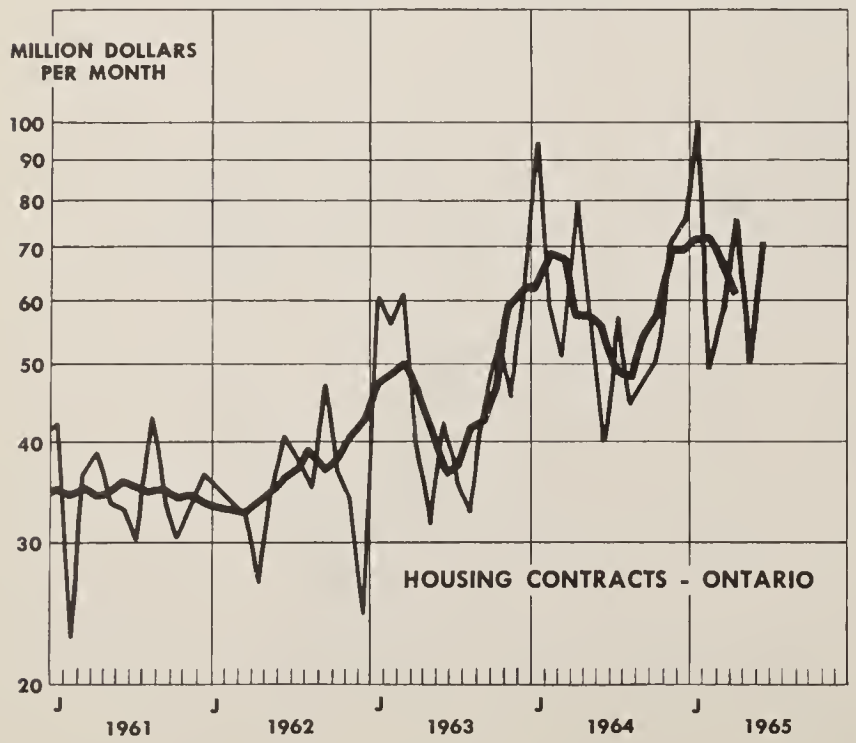
ECONOMIC INDICATORS — SEASONALLY ADJUSTED

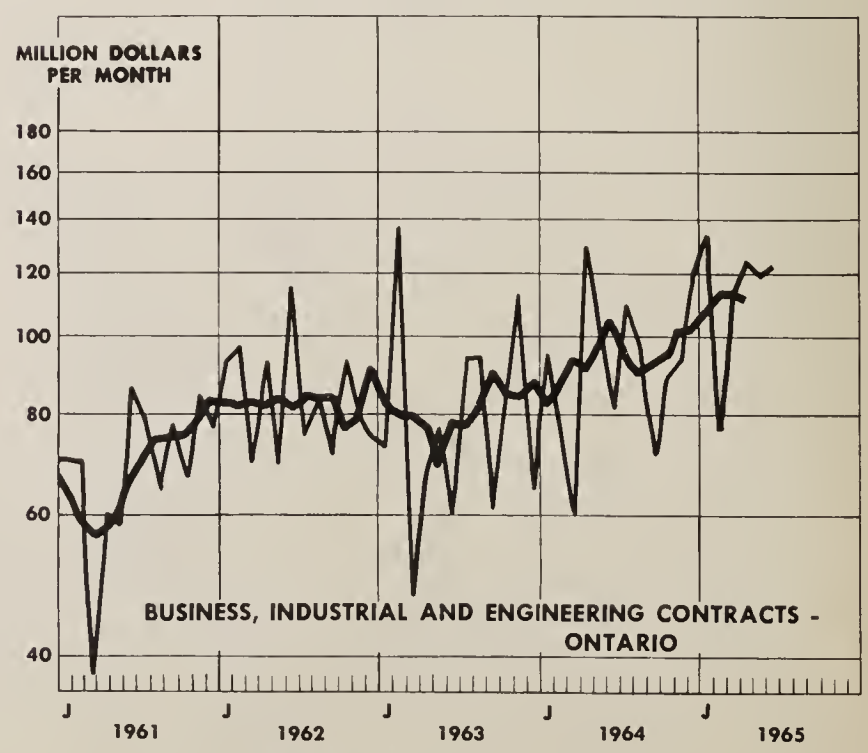




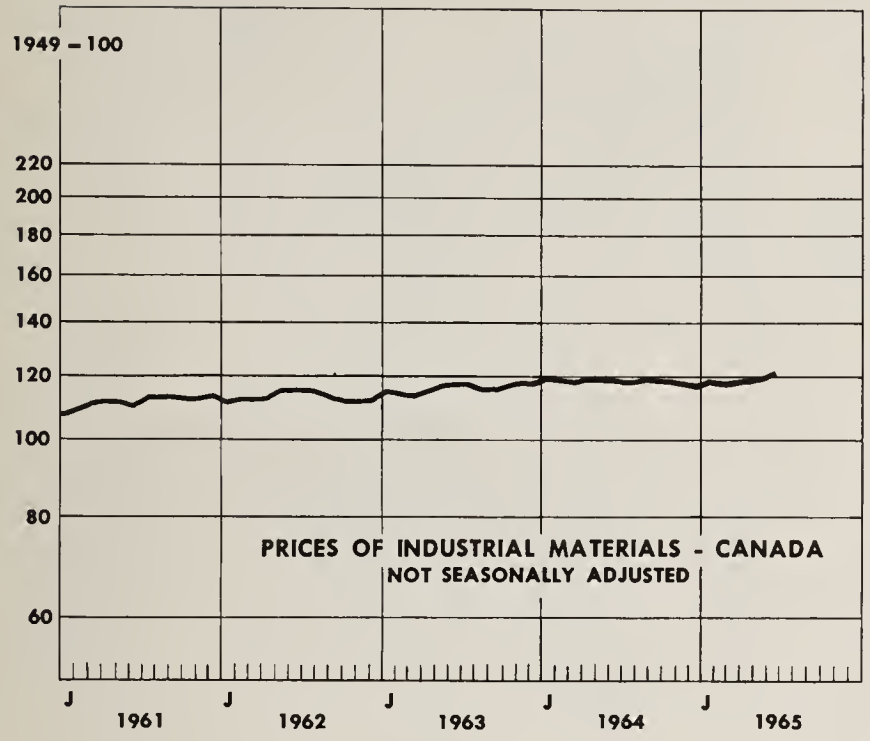


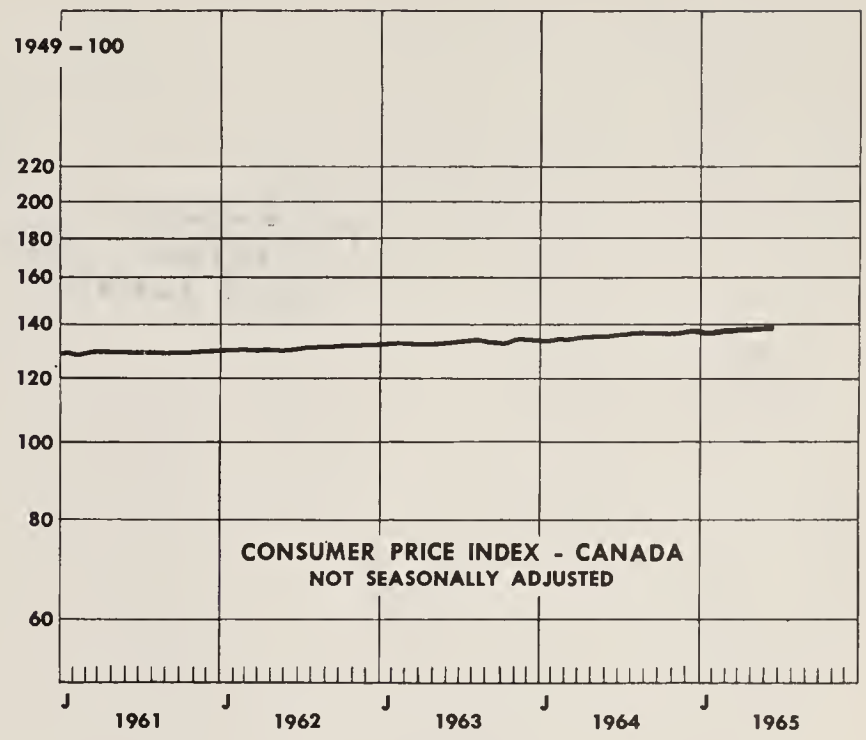


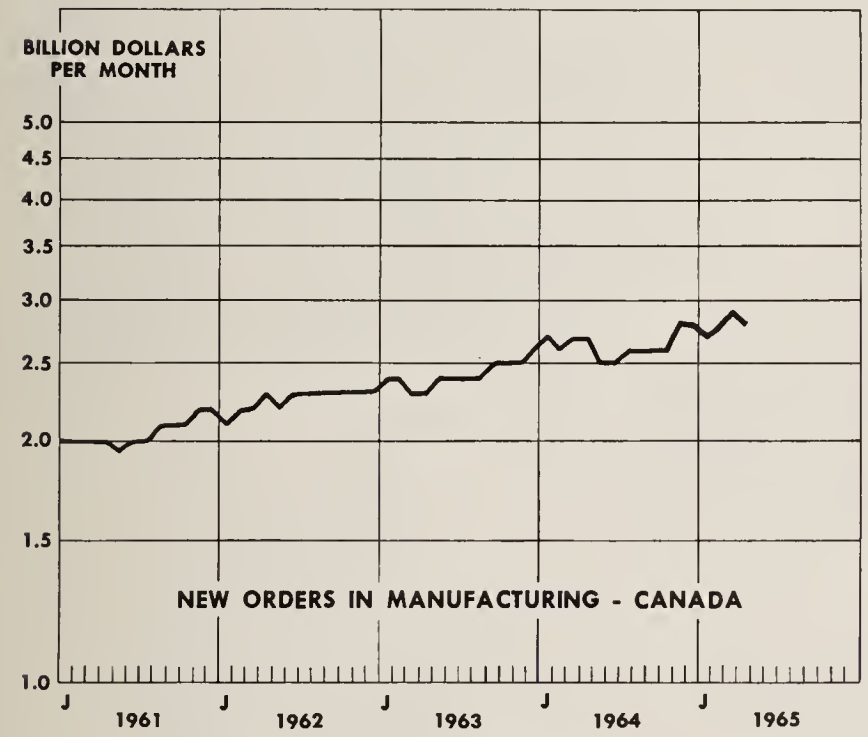


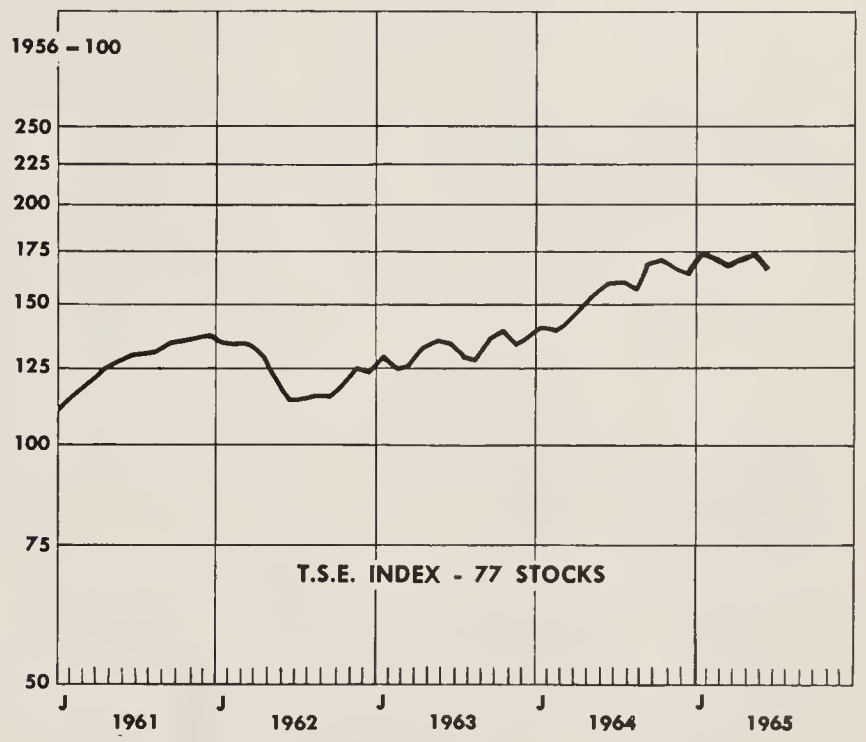


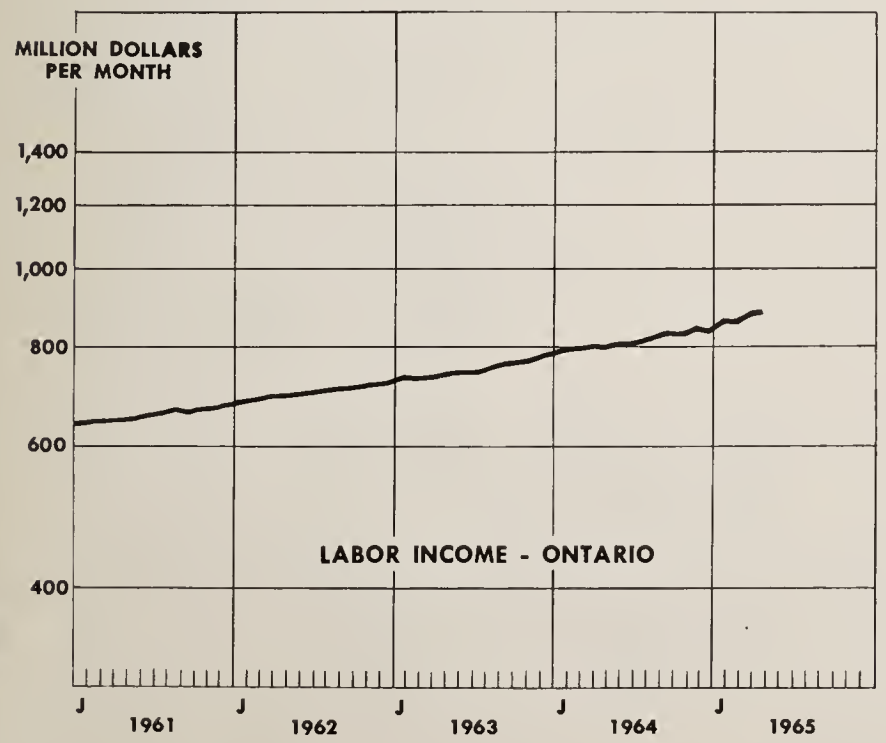
ECONOMIC INDICATORS — SEASONALLY ADJUSTED

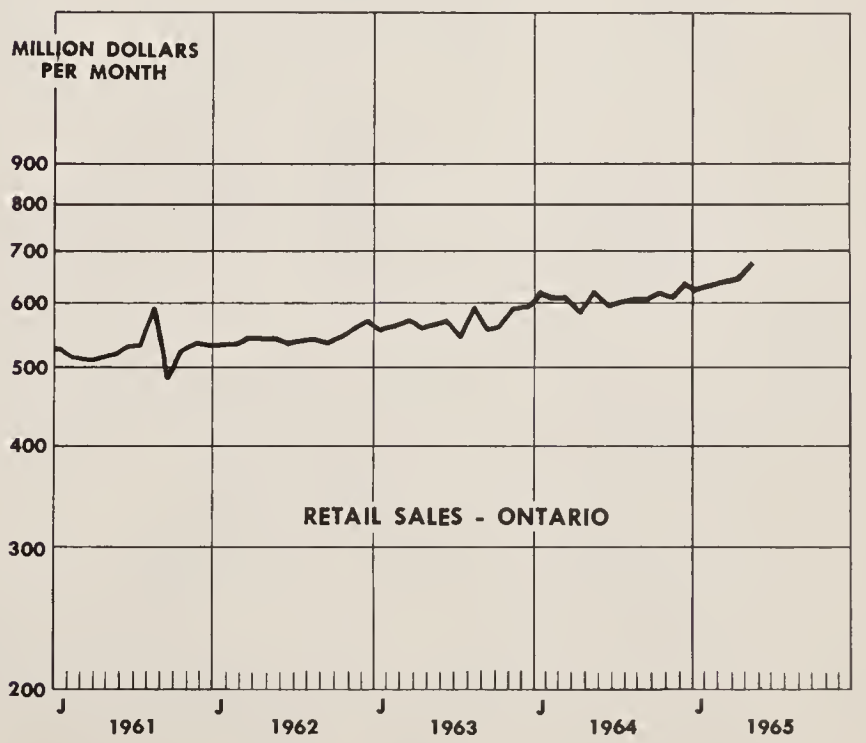












REFERENCE COPY

REFERENCE COPY

ONTARIO ECONOMIC REVIEW

AUGUST 1965
VOL. 3
NO. 4

HA
747
0656
1965
VOL.3
NO.4

DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Hon. Stanley J. Randall, Minister

Stuart W. Clarkson, Deputy Minister

Ont. Ministry of Treasury, Economics & Intergovernmental Affairs
MAR 11 1981
81/760
LIBRARY

CONTENTS

The Ontario Economy 1

Canada's Present Industrial Cycle in Perspective 2

ARDA in Ontario 4

The Background of Federal Unconditional Grants to the Provinces 1867-1887, *Douglas A. Auld* 6

Indicator and Charts 13

THE ONTARIO ECONOMY

Construction

The value of housing contracts, seasonally adjusted, rose slightly in July to $71.8 million, a level almost 25% higher than that of July 1964. On the other hand, the seasonally-adjusted value of Business, Industrial and Engineering contracts, after remaining somewhat steady during May and June, soared to a record $144.5 million in July. This represents an increase of 18.2% over June and of 31.8% over July 1964. To allay the pressures in the construction industry arising from the current expansion as well as the anticipated construction for Expo '67, the Federal Government postponed several public projects which were to have been initiated shortly. By so doing the Federal Government hopes to ease the mounting problem of manpower and material shortages. The deadlines on shared-cost programs were extended to enable provincial and municipal governments to delay construction without losing the Federal contributions. At the same time the hope was expressed that the business community would also co-operate by delaying large projects until conditions were eased.

New dwelling unit starts, seasonally adjusted, rose by 378 to 5,496 in June, the highest level since February of this year. The figure for new dwelling unit completions continued to decline in June to 3,722, seasonally adjusted, falling considerably below the July 1964 figure of 4,876.

Water and Sewage Financing

The entry of the Ontario Government into the field of water and sewage financing was marked with the recent announcement that the Province will finance a 20-year $67.1 million water and sewage scheme in five urban areas of Peel County. Involving an expenditure of $38.7 million (or 57.7% of the total) for water works and $28.4 million for sewage treatment works, the plan calls for the assumption of responsibility for water and sewage facilities by the Ontario Water Resources Commission. New facilities will be built or existing facilities will be taken over, enlarged and operated by the Commission. Municipalities will purchase the water and sewage facilities on a use basis.

The specific areas involved in the regional servicing program are Toronto Township, Port Credit, Streetsville, Brampton, Chinguacousy Township and part of Oakville. Initially a major watermain will bring Lake Ontario water to Brampton and Chinguacousy Township, two areas which currently draw water from wells. Sewage treatment and water purification plants on Lake Ontario in Toronto Township will be enlarged, while package treatment plants on the Etobicoke Creek and the Credit River will eventually be abandoned. The focal point of the proposed water works system will be the Toronto Township filtration plant, which it is expected will eventually increase its production capacity from 12 million gallons to 60 million gallons of water a day. Plans also call for the enlargement of Toronto Township sewage plants at Lakeview and Clarkson as well as the Brampton-Chinguacousy Township plant on the Etobicoke Creek.

It is anticipated that the population of the area served by this plan will increase from its current 130,000 to 450,000 by 1985.

Foreign Trade

The latest foreign trade statistics available indicate that Canadian domestic exports in May were valued at $745.7 million, up 11.2% over the May 1964 figure. Over the January-May period, when exports totalled $3,184.2 million, the increase over 1964 was a less impressive 4.1%. This slower growth reflects the sharp decline of exports in the first few months of this year as compared with the same period in 1964 when wheat shipments to the U.S.S.R. were significant. Nevertheless, Canadian exports to most

of its usual customers have grown, notable exceptions being Japan and Germany, as well as the U.S.S.R. Exports to the United States in the January-May period, at $1,834 million, are up 12.3% over that period in 1964. Exports to Belgium and Luxembourg are up a noteworthy 76.2% as well.

An indication of the excellent progress that Ontario manufacturing is making comes from the impressive growth in exports of inedible end products, up 18.5% over the same five month period last year. In the forefront of this growth is the automobile industry, where exports of automobiles, chassis, engines and parts have doubled during that time.

Preliminary data on Canadian imports in May indicate that at $735.1 million, there has been an increase in imports of 11.8% over last May. The January to May comparison shows a smaller increase of 8.7%, with total imports at $3,276.8 million. An analysis by country reveals that imports from the United Kingdom for the May and January-May periods fell 8.1% and 0.7% respectively, while those from the United States rose 15.9% and 10.4% to levels of $506.8 million and $2,359.6 million respectively.

Finance

The emerging international trend towards higher interest rates and such domestic disruptions as the recent mail strike, combined to have an unsettling effect upon the Canadian money market during July. The demand for loanable funds was generally erratic and the supply situation somewhat spasmodic. Reflecting this situation the day-to-day loan rate, which was quoted as low as 3⅛% early in the month, fluctuated widely to close the month at around 4%. Direct dealer borrowing from the Bank of Canada was significant, particularly towards the close of July. Prime finance paper rates generally increased by ⅛ to ¼ of 1%.

Selling pressures continued to prevail in most sections of the Canadian bond markets throughout July. On light trading volume, downward price adjustments of almost two full points were registered by certain longer termed maturities. The impending federal refunding requirements in respect of a maturing $450 million Government of Canada debt obligation were cited as accounting largely for the light trading volume. The market's easier tone was attributed to fears of tighter credit conditions in the immediate future.

New Canadian bond financings for the first seven months of 1965 totalled $2.35 billion, an increase of some 19.3% over last year's comparable total of $1.97 billion. Of 1965's total new financings, U.S. pay issues amounted to $363 million — an increase of almost 40 per cent over the same period of 1964.

Despite a significant resurgence of demand in the last three trading sessions of the month, prices of industrial equities on the Canadian stock exchanges closed the month at slightly lower levels. The Toronto Stock Exchange Industrial Index, in reflecting the market's trading pattern, declined to a closing low of 156.62 on July 26th before recovering to close the month at a level of 161.38 — a decline, nevertheless, of 1.89 on Index over the month.

Canada's official holdings of gold and U.S. dollars rose in July to $2,491.5 million from $2,480.1 million at the end of June. With the exception of April of this year, this is the first month to month increase registered by these reserves since their all time high of $2,743.4 million set last November.

The value of the Canadian dollar appreciated in terms of U.S. funds late in July to more than offset the losses it incurred earlier in the month. The quoted value at the close of that month was 92.50 cents — a gain of 0.22 cents over the period.

CANADA'S PRESENT INDUSTRIAL CYCLE IN PERSPECTIVE

The present cycle in industrial production[1] began in January 1960 when the previous cycle reached a new peak. The recession reached a trough in January 1961, and recovery was achieved in June 1961. Since the recovery (for the past 47 months), industrial production has been expanding, and the latest data available show that in May of this year output had reached a level 31.3 per cent above the previous peak.

The following table shows how the present cycle thus far compares with those of the past in terms of the duration of its various phases.

[1] The index of industrial production comprises mining, manufacturing and the electric power and gas utilities.

TABLE I

MONTHS DURATION OF CYCLICAL PHASES IN INDUSTRIAL PRODUCTION SINCE 1919

Cycle	Recession			Expansion	Total Cycle	Expansion as % of Total Cycle
	Peak to Trough	Trough to Recovery	Peak to Recovery	Recovery to New Peak	Peak to Peak	
1919-1924	18	14	32	20	52	38.5
1924-1929	5	13	18	43	61	70.5
1929-1937	46	46	92	9	101	8.9
1937-1944	13	8	21	55	76	72.4
1944-1953	25	42	67	47	114	41.2
1953-1957	10	8	18	26	46	59.1
1957-1960	9	13	22	12	34	35.3
Average Cycle	18	21	39	30	69	43.5
1960 to date (May 1965)	12	5	17	47	64	73.4

The first point to note regarding Table I is that not only does the current cycle compare favourably with the average of past cycles, but also that it has already established three records: the number of months required to reach recovery (five) was the shortest on record; the number of months from previous peak to recovery (seventeen) was the shortest on record; and the number of months in expansion has already amounted to a record of more than 73 per cent of the total cycle so far. Furthermore, the expansion thus far has already been the second-longest, and has lasted four times as long as in the preceding cycle.

The second point to note is that there have been alternations in the durations of the trough to recovery and peak to recovery, and in the expansion percentage of total cycle.

Table II shows how the present cycle (thus far) compares with those of the past in terms of compound annual percentage rates of change through the various cyclical phases.

Table II indicates that in the present cycle the rate of decline from peak to trough (at —4.1 per cent *per annum*) was one of the most moderate on record, and the rate of recovery from the trough (at 12.4 per cent *per annum*) was the fastest of any since the second world war. On the other hand, the rate of expansion (at 5.9 per cent *per annum*) has been the slowest on record; and the growth rate for the entire cycle thus far (at 4.3 per cent *per annum*) has been the slowest of the fast cycles.

TABLE II

COMPOUND ANNUAL PERCENTAGE RATES OF CHANGE THROUGH THE CYCLICAL PHASES

Cycle	Recession		Expansion	Growth Rate
	Peak to Trough	Trough to Recovery	Recovery to New Peak	Peak to Peak
1919-1924	—17.9	34.5	9.8	1.7
1924-1929	— 9.7	19.5	10.6	8.1
1929-1937	—10.7	18.6	13.7	1.2
1937-1944	— 7.3	13.0	13.6	9.7
1944-1953	—11.8	6.1	6.8	2.8
1953-1957	— 4.1	9.1	8.3	5.5
1957-1960	— 8.8	7.2	7.1	2.7
1960 to date (May 1965)	— 4.1	12.4	5.9	4.3

Two columns in Table II reveal alternations in rates of change: peak to trough, and growth rate.

Combining Table I and Table II we find two major features. The first is the sequential pattern of alternate fast and slow cycles, with the present cycle taking its place as a fast one (although slower than previous fast cycles). The second feature is that fluctuations are being ironed out in the decline and expansion phases of cycles and in the alternations between fast and slow cycles, and that recessions have been tending to become shorter and shallower.

It is obvious that the eighteen years since the second world war have been an improvement on the similar span following the first world war. Table III shows that growth was faster in the initial decade following the first world war (1919-1929) than in the immediate decade following the second (1946-1956), but regarding the succeeding eight-year periods we have done much better than a generation ago.

TABLE III

COMPOUND ANNUAL RATES OF TREND[1] FOR CANADA'S VOLUME OF INDUSTRIAL PRODUCTION

Post World War One		*Post World War Two*	
Period	*%*	*Period*	*%*
1919-1929	6.7	1946-1956	5.9
1929-1937	3.0	1956-1964	4.1
1919-1937	3.1	1946-1964	5.0

[1] Trend calculated by least squares of logarithms.

ARDA IN ONTARIO

The Agricultural Rehabilitation and Development Act (ARDA), passed in June 1961, is an act empowering the Government of Canada to enter into agreements with individual provincial governments for the purpose of jointly studying rural and agricultural problems and undertaking appropriate remedial measures. Since 1961 there have been two agreements reached between the Government of Canada and the Government of the Province of Ontario, both outlining the specific operating policies, objectives and terms of ARDA.

The most recent Federal-Provincial Rural Development Agreement came into effect April 1, 1965, following the expiry of the original General Agreement, and is operative until 1970. While there are many basic similarities, the new Agreement differs from the original one in both emphasis and the amount of the Federal contribution. The shift in emphasis is from general resource development to the development of low income rural areas. The Federal Government contribution was increased from a maximum of $50 million to a maximum of $125 million.

Specifically, the Agreement recognizes that (a) adjustments on the part of rural areas and people are required in response to widespread social, technological and economic changes; (b) the economic level and standard of living of many people in rural areas are unreasonably low; (c) economic and social disadvantages affecting many low income rural people require government action; (d) there is a need in Canada for a more effective use of some lands; for soil conservation and improvement, and for management, conservation and development of water resources. Responsibilities under the Agreement are to be those of studying the changing needs of rural people and areas, and of setting up appropriate programs and projects to fulfill those needs.

Essentially, the Government of Canada, represented by the Minister of the Department of Forestry, undertakes to contribute one-half of the sharable cost[1] of approved programs or projects under ARDA, but limits maximum annual expendi-

[1] The actual percentage of the total cost borne by the Federal Government varies according to the manipulation of the shareable cost.

ture on all provinces to $25 million in any one year. It agrees to pay the Province of Ontario, represented by the Minister of the Ontario Department of Agriculture, an amount up to $5,058,287 *per annum* for the next five years.[2]

Responsibility for initiating programs and carrying them out rest mainly with the provincial government. Program proposals are studied by Ontario's ARDA Directorate, made up of representatives of certain provincial departments and the University of Guelph. Once accepted by the Directorate, and subject to the approval of the Ontario Treasury Board, projects are submitted for the approval of the Government of Canada. Local municipal participation is worked out between the provincial and municipal bodies.

The Agreement outlines the broad categories of activity that may be required in ARDA programs and projects.

(a) Research. This category enables Canada and Ontario to undertake jointly physical, social and economic research.

(b) Land Use and Farm Adjustment. Viable farms may be established through the enlargement, consolidation, regrouping and basic improvement of sub-marginal farms, and unsuitable farming areas may be withdrawn from use.

(c) Rehabilitation. Rural people who by virtue of underemployment or low income are in need of assistance may be rehabilitated and re-established in effective employment.

(d) Rural Development Staff and Training Services. This category provides for the training of staff needed to implement ARDA projects.

(e) Rural Development Areas. Rural areas and communities may be designated and programs carried out where there is a need to increase income and employment opportunities.

(f) Special Rural Development Areas. Comprehensive rural development programs may be carried out in specially selected rural development areas.

(g) Public Information Services. This provides for the development of public information services suited to the needs of the ARDA program.

(h) Soil and Water Conservation. Measures may be taken to advance soil and water conservation in rural Canada primarily for agricultural and rural development purposes.

Activity under ARDA in Ontario has been restricted mainly to four categories: Research, Land Use and Farm Adjustment, Rural Development Areas, and Soil and Water Conservation. At present the total commitment of the three levels of government – federal, provincial and municipal – is about $7 million.

The research under way at mid-1965 covers a wide range of studies. The Ontario Water Resources Commission is studying water resources in the Big Creek Watershed, and at the same time carrying out a survey of the hydrology of Ontario's streams and rivers, in order to allocate water more effectively. The adjustment problems in certain low income rural areas are also being studied under ARDA. Several studies are under way in the Canada Land Inventory, a national program to classify and map physical qualities in settled regions of Canada. The University of Guelph is involved in several studies under ARDA. One is the determination of the productive potential of roughland for pasture, with test plots located in Bruce, Dufferin, Grey, Northumberland, Simcoe and Victoria Counties. Another involves improving cultural practices for blueberry and cranberry production in Northern and Central Ontario. A study of land use in Bruce, Grey and Leeds Counties was recently completed.

Under the Land Use and Farm Adjustment category there are several programs and projects. Community pastures, land set aside to permit farmers to increase their livestock carrying capacities, have been established in certain areas of Victoria, Leeds and Stormont Counties, as well as in the Districts of Timiskaming and Manitoulin. A program of land consolidation for beef livestock ranching has been set up in Northeastern Ontario. A program to retire sub-marginal agricultural land into uses such as forestry, recreation and wildlife is in progress in many areas, particularly the Georgian Bay area and in Southeastern Ontario.

Some Soil and Water Conservation programs are the Whiteman Creek Watershed Development in Brant and Oxford Counties; Snake and Muskrat Rivers Watershed Development in Renfrew County; the Moira Rural Water Supply Development in Hastings County; and the Wetland Development in the Otonabee River Watershed. Other activities under this category include an engineering study on the South Nation River, assistance to the Rainy

[2] The actual allotment to Ontario each year is made up of a statutory grant plus an additional amount based on (i) its rural population, (ii) the number of rural non-farm families with family income of less than $3,000 *per annum*, and (iii) the number of farms (excluding residential and institutional) with a total capital value of less than $25,000 and annual farm product sales of less than $3,750. In addition the Province can receive contributions from the $50 million Special Fund for Rural Economic Development, a fund set up to assist specific major development projects.

River area which is experiencing drainage problems, and a water conservation and engineering project in Renfrew and Ontario Counties.

A Rural Development Study is in progress in Eastern Ontario, attempting to assess the physical capabilities of the land to meet the expected requirements of the people of the region. Another undertaking, the Burlington Rural-Urban Study, is being conducted to reconcile the use of nearby agricultural land with the municipality's need for commercial, residential and industrial land. Finally, the District of Manitoulin having been declared a Rural Development Area under the terms of the Federal-Provincial ARDA Agreement, preparations are underway for the development of programs to improve the economy of the area. The particular approach used, that of having a rural development officer coordinate the facilities of several government departments, is intended to act as a pilot study. Its success will likely ensure its application to other areas as well.

THE BACKGROUND OF FEDERAL UNCONDITIONAL GRANTS TO THE PROVINCES 1867–1887

Douglas A. Auld

Economist, Financial Research Branch (Summer 1965)

ONTARIO DEPARTMENT OF ECONOMICS AND DEVELOPMENT

The twenty year period from Confederation to 1887 can be pictured as the embryonic stage in the development of Dominion-Provincial financial relations. It was during this short span of years that Canada grew from a country of four provinces and three million people to one which extended from the Atlantic to the Pacific Ocean, encompassing over two million square miles and five million people. The backbone of Dominion-Provincial finances in 1867 was the federal subsidies to the provinces. The following is a brief glance at the initial structure of these grants and the unforeseen alterations which ensued.

Basic to the comprehension of the initial structure of federal subsidies is an understanding of the political philosophy behind the federation itself. Suffice it to say that if the federal government was to assume any power, it was imperative that, at this level of government, there must be absolute control of tariffs and customs duties, the primary source of "provincial" revenue at that time.[1] Although the federal government was to shoulder the burden of provincial debt and assume administration of certain areas indigenous to the provinces up to 1867, the provinces would still have expenditures to meet, which the remaining revenue sources could not finance.

There were basically three solutions to this problem. First, the provinces could be permitted to retain some areas of indirect taxation. Second, the provincial legislatures could enact direct taxation to meet provincial expenditures. Third, the federal government could return a portion of the collected funds to each province. The first idea would clearly limit the effectiveness of the federal government's commercial policy, and this was recognized in the B.N.A. Act which forbade the employment of indirect taxation by the provinces.[2] The second suggestion was literally unheard of and would not be accepted as an orthodox means of obtaining revenue. The third plan or proposal, in spite of the misgivings it engendered and after much adjustment, was finally – though somewhat reluctantly – agreed upon.

[1] *Customs Duties of Provinces — 1866*

	($'000)	*% of Province's Total Revenue*
Upper and Lower Canada	7,328	60
Nova Scotia	1,226	80
New Brunswick	1,037	78
Prince Edward Island	166	75
British Columbia	345	65
Total	10,102	64

[2] B.N.A. Act, Section 92 (2).

Per Capita Grants

There appears to be a conflict regarding the method employed to determine the amount of the grant. Certain records indicate that the *per capita* grant for each province was to be the same as the *per capita* grant for Upper and Lower Canada, the latter being determined on the basis of the total subsidy required to finance their operations. Another maintains that it was the same as Nova Scotia's *per capita* grant, based on that province's proposed deficit of $371,000.[3] Regardless of the method, the grant was established at $.80 *per capita* and based on 1861 census figures. For each of the Maritime provinces the absolute value of the grant was to increase until its population reached 400,000. Under these terms Ontario received $1,116,000, Quebec $890,000, Nova Scotia, $264,000 and New Brunswick $202,000 in *per capita* grants.

Three years following the B.N.A. Act, Manitoba became a member of the Confederation. At that time, the province had no permanent government and hence no budget by which to judge its needs in the present and near future. The newest arrival received the $.80 *per capita* grant based upon an inflated population figure of 17,000.[4] This and other grants would increase subject to the same conditions granted the Maritimes. Manitoba was quite willing to accept these terms and the Dominion was equally content in making the grants. In terms of its development relative to other provinces, Manitoba's entry into Confederation was premature.

The following year British Columbia was admitted as a province of the Dominion and also was accorded rather exceptional financial terms. The delegates were desirous of a *per capita* grant based upon a population of 120,000, computed by a special method.[5] At the completion of the deliberations, British Columbia was granted $.80 *per capita* for a population figure of 60,000, when the actual number of settlers was approximately 9,100. This gave British Columbia a total grant of $48,000 *per annum* which was to be augmented until the population reached 400,000.

Prince Edward Island rejected union in 1867. By 1873 this province was, like British Columbia, seeking deliverance from an increasing *per capita* debt and high interest payments. After lengthy discussions, Prince Edward Island became the seventh member of Confederation, receiving an $.80 *per capita* grant of $75,000, under conditions identical to those of Nova Scotia and New Brunswick.

The initial *per capita* subsidies were as follows:

Province	*Total* Per Capita *Subsidy*
Ontario	$1,116,000
Quebec	890,000
Nova Scotia	264,000
New Brunswick	202,000
Manitoba	13,600
British Columbia	48,000
Prince Edward Island	75,000
Total	$2,608,600

Debt Allowance

The large debt incurred by the colonies in programs of road building and railway development was a major practical reason for Confederation. By 1866 debt charges of the colonies on a total net debt of $96 million amounted to 27 per cent of all expenditures undertaken by the colonies. It was decided that, at Confederation, the federal government would assume the provincial debt under the following scheme. Each province would be granted a debt allowance on a *per capita* basis, as calculated by the 1861 census. By 1864 the prospective provinces' net indebtedness was as follows:

Province	*Net Debt*
Upper and Lower Canada	$67,264,000
Nova Scotia	4,859,000
New Brunswick	5,703,000
Newfoundland	946,000
Prince Edward Island	241,000

On a *per capita* basis, there existed a discernible inequality among provinces. Nova Scotia and New Brunswick, however, had incurred other railroad liabilities which upon their surrender to the Dominion were added to the totals above, resulting in the following total and *per capita* debt:

Province	*Total Debt*	*Population*	Per Capita *Debt*
The Canadas	$67,264,000	2,136,000	$31.48
Nova Scotia	7,859,000	330,000	23.81
New Brunswick	7,003,000	252,000	28.58
Newfoundland	946,000	130,000	7.27
P.E.I.	241,000	85,000	2.83

[3] The reduction of Nova Scotia's proposed deficit from $667,000 as a result of a budget revision changed the *per capita* deficit from $1.70 to $.94.

[4] Estimated settler population, 1,600 persons.

[5] The figure was arrived at by the following curious method. The *per capita* customs and excise levy in Canada was $2.75, while the total for British Columbia was $330,000. Based upon a *per capita* revenue figure of $2.75, this would be equivalent to 120,000 persons in the province or a basic subsidy of $96,000.

On the strength of these estimates it was decided that a debt allowance in the neighbourhood of $25.00 *per capita* would be permitted. Since the federal government was to assume all the debt, it was evident that compensation was necessary with respect to the difference between the actual debt and debt allowance. If the actual debt exceeded the allowance, the province was to pay the Dominion an annual sum equal to five per cent of the difference. Similarly the Dominion would pay five per cent on the difference if the actual debt was less than the debt allowance. At the time of Confederation, the structure appeared settled and was to remain as stipulated, if and when the Dominion acquired new territory.

Province	*Actual Debt*	*Debt Allowance*	*Deviation from $25 Per Capita*	*Interest Payment To (—) or From (+) Federal Gov't.*
	$	$	$	$
The Canadas	67,264,000	62,500,000	— .08	—238,200
N.S.	7,859,000	8,000,000	—1.83	+ 7,050
N.B.	7,003,000	7,000,000	+2.77	— 150

Manitoba's entry into the Dominion engaged the necessity of creating a debt allowance *pari passu* with the original provinces. Due to the estimated population of 17,000 and the absence of any debt, the interest payment by the Dominion on a $27.77 *per capita* grant amount to $23,600 *per annum*. British Columbia, upon attaining its status as a province of the Dominion in 1871, also received a debt allowance of $27.77, applied to the inflated population figure of 60,000. Since the debt was assumed to be approximately one million dollars, the new province was entitled to an interest payment of $33,000.

Prince Edward Island, suffering under a heavy debt, entered the federation in 1873. To alleviate this debt, a change in debt allowance policy for that province was introduced, giving it substantially more than the original $25.00 *per capita* grant. Based upon a population of 93,750, Prince Edward Island received a debt allowance of $50.00 *per capita*, thereby abrogating its debt of over 3.8 million dollars and creating a credit interest payment of approximately $43,000.

Grants for Government Operation

The grants which were conferred upon the provinces for the operation of government are summarized below:

Province	*Year of Entry Into Confederation*	*Grant for Operation of Provincial Gov't.*
Ontario	1867	$80,000
Quebec	1867	70,000
New Brunswick	1867	50,000
Nova Scotia	1867	60,000
Manitoba	1870	30,000
British Columbia	1871	35,000
Prince Edward Island	1873	30,000

The *per capita* grants, debt allowances and interest payments, and the grants for government were conferred upon all those areas entering Confederation. There were, in addition, special grants which require some explanation.

Special Grants

In 1867 one special grant arrangement was made with New Brunswick – an annual grant of $63,000 for ten years – as a method of alleviating the weak financial position of the province. (At the time of Confederation, New Brunswick was allocating 38% of its current revenue for interest payments, and was soon to face further demands.) A few years later, Manitoba received a special grant of $45,000 *per annum* as payments for lands held by the Dominion.

British Columbia had originally requested a total subsidy and grant payment of $216,000. As a result of the settlement of the three major federal transfers, British Columbia was to receive approximately $116,000 each year, or $100,000 short of its demand. The deficit was bridged by granting the new province $100,000 each year, provided that the Dominion received a belt of land twenty miles on each side of the proposed Pacific railway. Both the amount of land and the payment for such were arbitrary, but it furnished a plausible subterfuge to the problem of complying with British Columbia's request.

Despite its deteriorating fiscal position, Prince Edward Island demanded rather generous financial terms if she became a part of the Dominion. An offer of $800,000 was made by the Dominion, which would enable the province to purchase lands presently owned by absentee landlords. This first settlement was rejected. In May of 1873, the new terms granted an annual payment of $45,000 which the Island could capitalize and from which it could draw out a sum not in excess of $800,000. With interest at 5% *per annum*, this yielded a capitalized withdrawal fund of $900,000 for Prince Edward Island. Concomitant with the other financial terms, the Island accepted this as a settlement for union.

TABLE I

TOTAL FEDERAL GRANTS AND SUBSIDIES TO PROVINCES AT TIME OF ENTRY INTO CONFEDERATION

Province	*Date of Entry*	*Interest Payment To (—) or From (+) Federal Gov't.*	Per Capita *Subsidy ($.80)*	*Grant for Government Operation*	*Special Grant*	*Total*	Per Capita *Total Grant and Subsidy*
		$	$	$	$	$	$
Ontario	1867	—125,664[i]	1,116,000	80,000	—	1,070,336	.76
Quebec	1867	—112,336[i]	890,000	70,000	—	847,664	.76
Nova Scotia	1867	+ 7,050	264,000	60,000	—	331,050	1.00
New Brunswick	1867	— 150	202,000	50,000	63,000	314,850	1.25
Manitoba	1870	+ 23,600	13,600	30,000	—	67,200	3.95[ii]
British Columbia	1871	+ 33,000	48,000	35,000	100,000	216,000	3.60[ii]
P.E.I.	1873	+ 43,000	75,000	30,000	45,000	193,000	2.05
Total $		—131,500	2,608,600	355,000	208,000	3,040,100	

(i) No accord could be reached in 1867 on how the debt could be divided. In 1870 it was decided that the proportions assumed by Ontario and Quebec were 52.8% and 47.2% respectively.

(ii) *Per Capita* grants for Manitoba and British Columbia in this table are based upon inflated population figures. The *per capita* grant based on actual population figures would have been considerably higher than those recorded above.

The initial subsidies and grants for each province upon entry into Confederation are tabulated as aggregates in Table I.

Post-Confederation Alterations

The first agitation for revision of the original grants came from Nova Scotia in 1869, two years following entry into the Dominion. Anti-Confederation feeling was intense and justified by Nova Scotians on the grounds that they had not received a fair financial agreement in 1867.

Nova Scotia's first grievance centered around the debt allowance. In relation to that of Ontario, Quebec and New Brunswick, the debt allowance was lower. Secondly, the average annual *per capita* customs revenue from Nova Scotia had been $3.28 between 1864 and 1867, while in the Canadas it had been $2.60 for the same period. It was subsequently argued that Nova Scotia assumed a greater burden of the Dominion's taxation. Thirdly, the province persisted in its claim that under the existing framework of Confederation, she had lost the sources of 90% of the revenue but the Dominion had assumed only 55% of the expenditures. The result was a deficit which present financial arrangements could not alleviate.

As a consequence of these protestations, an Act of Parliament raised Nova Scotia's debt allowance to $27.77 *per capita*, the same level as that of New Brunswick, and granted a ten year subsidy of $82,698 dating from 1867. This was the initial breach of the 1867 structure, a breach which was to widen dangerously in years to come.

Four years later New Brunswick placed its grievance before the Dominion, arguing that its contributions to the Dominion were out of proportion, considering the amount it received from the federal treasury. The forecasted deficit could not be met by direct taxation, since such a measure would not receive popular support. Recognizing that the Treaty of Washington had rescinded New Brunswick's right to collect lumber duties, the federal government granted an indemnity of $100,000 *per annum*.

The year 1873 was marked by two events, the entry of Prince Edward Island into Confederation and the realignment of the debt allowances. The background for such a revision was the disparity between the debt allowance and actual debt of the Canadas. The division of the debt between Ontario and Quebec was never settled originally and was finally placed before an arbitration committee. The latter decided that the surplus debt should be divided in proportion to the benefits received from the total debt of Upper and Lower Canada. Therefore, Ontario would finance 52.8% of the surplus debt and Quebec would finance the remainder. Quebec opposed this decision and the matter was introduced before the House of Commons, imploring the federal government to accept the excess debt of Quebec and Ontario. The suggestion, refused in 1871, was adopted in 1873, and the overall changes were as follows:

Province	*Addition in Debt Allowance in 1873*
Upper and Lower Canada	$10,506,100
Nova Scotia	1,544,300
New Brunswick	1,176,700
British Columbia	280,100
Manitoba	79,400
Total	$13,586,600

For the next eleven years, an array of minor concessions and alterations took place. In 1876 Manitoba's *per capita* grant increased by $26,700, based on a forecasted population growth. Two years later, the *per capita* grant was declared on the basis of a population of 150,000 and the grant for government was increased by $20,000. During this period the special grants to Nova Scotia and New Brunswick expired and were not renewed.

By 1884 agitation from Quebec and disharmony among members of the federal cabinet forced the Dominion to reconsider the structure of debt allowances, and, with some regret, institute the second major revision. In 1873 the Dominion had assumed the debt of Ontario and Quebec and the next step taken was in addition to this. The interest charged on the earlier excess debt was added to the 1873 alterations in debt structure. This added debt allowance of $5,397,500 was to be divided in the same ratio as decided upon by the arbitrators thirteen years previous. Compensation was granted to the other provinces, resulting in additions to all debt allowances and interest payments.

Province	*Addition to Debt Allowance in 1884*(i)
Ontario	$2,848,300
Quebec	2,549,200
Nova Scotia	783,400
New Brunswick	604,500
Manitoba	110,800
British Columbia	83,100
Prince Edward Island	183,000
Total	$7,162,300

(i) Interest on the excess debt, payable by the Dominion, was now $358,614.

Table II

DOMINION-PROVINCIAL SUBSIDY AND GRANT ARRANGEMENTS AND ALTERATIONS 1867-1887

(Thousands of dollars)

	1867	1868	1869	1870	1871	1872	1873	1874	1875	1876	1877	1878	1879	1880	1881	1882	1883	1884	1885	1886	1887	Per Cent Increase 1867-1887
Ontario																						
Per Capita	1,116.0						1,116.0											1,116.0			1,116.0	
Debt Interest	(125.6)						—											142.0			142.0	
Government	80.0						80.0											80.0			80.0	
Special	—						—											—			—	
Total	1,070.4						1,196.0											1,338.0			1,338.0	25
Quebec																						
Per Capita	890.0						890.0											890.0			890.0	
Debt Interest	(112.3)						—											127.0			127.0	
Government	70.0						70.0											70.0			70.0	
Special	—						—											—			—	
Total	847.7						960.0											1,087.0			1,087.0	28
Nova Scotia																						
Per Capita	264.0		264.0		276.0		276.0				276.0				300.0			300.0			300.0	
Debt Interest	7.0		64.7		64.7		141.7				141.7				141.7			181.2			181.2	
Government	60.0		60.0		60.0		60.0				60.0				60.0			60.0			60.0	
Special	82.7		82.7		82.7		82.7				—				—			—			—	
Total	413.7		471.4		483.4		560.4				477.7				501.7			541.2			541.2	31
New Brunswick																						
Per Capita	202.0				208.0		208.0				208.0				224.0			224.0			224.0	
Debt Interest	—				—		58.4				58.4				58.4			88.4			88.4	
Government	50.0				50.0		50.0				50.0				50.0			50.0			50.0	
Special	63.0				63.0		163.0				100.0				100.0			100.0			100.0	
Total	315.0				321.0		479.4				416.4				432.4			462.4			462.4	46
Manitoba																						
Per Capita			13.6				13.6		40.3			120.0						120.0	120.0		120.0	
Debt Interest			23.6				37.6		37.6			37.6						196.0	196.0		196.0	
Government			30.0				30.0		30.0			50.0						50.0	50.0		50.0	
Special			45.0				45.0		45.0			45.0						175.0	145.0		145.0	
Total			112.2				126.2		152.9			252.6						541.0	511.0		511.0	355
British Columbia																						
Per Capita					48.0		48.0							112.0	112.0			112.0			112.0	
Debt Interest					33.0		37.0							37.0	37.0			41.5			41.5	
Government					35.0		35.0							35.0	35.0			35.0			35.0	
Special					100.0		100.0							350.0	100.0			100.0			100.0	
Total					216.0		220.0							434.0	284.0			288.5			288.5	33
Prince Edward Island																						
Per Capita							75.0								76.0			76.0			76.0	
Debt Interest							43.0								43.0			52.1			52.1	
Government							30.0								30.0			43.0			43.0	
Special							45.0								45.0			45.0			65.0	
Total							193.0								194.0			216.1			236.1	25
TOTAL (Canada)	2,646.8	2,646.8	2,704.5	2,816.7	3,050.7	3,050.7	3,735.0	3,735.0	3,735.0	3,761.7	3,616.0	3,616.0	3,715.7	3,929.7	3,820.7	3,820.7	3,820.7	4,474.2	4,504.2	4,504.2	4,464.2	66

Note: Brackets indicate a payment to the federal government.

For the next three years considerable discontent was evident in the provinces regarding existing financial arrangements. This culminated in the Premiers' Conference in 1887. To alleviate these agitations, the Dominion forwarded certain additional subsidies to Manitoba and Prince Edward Island. The claims of Nova Scotia and Quebec, that their contributions to the federal government were greatly in excess of federal reimbursements, received little notice.

In 1884 Manitoba received an education grant of $30,000 for which repayment was to be made (at five per cent interest) from the sale of school lands. After constant pressure from the provincial government of Manitoba, the federal government awarded an exceptional revision of that province's grants and subsidies. Up until this time the province had received $45,000 *per annum* for lands held by the Dominion. Now Manitoba wanted full rights to these lands. As a "final settlement" the Dominion granted Manitoba $100,000 *per annum* in lieu of provincial ownership of certain lands, a debt allowance based on 125,000 people, and a *per capita* grant at an increasing rate until population reached 400,000. Such a revision gave Manitoba the highest *per capita* federal grant in the Dominion, based on the current population figures of 1881.

The province of Prince Edward Island received a grant of $20,000 *per annum*, commencing in 1887, as a compensation for railway subsidies which were awarded other provinces in 1882. Once more, special attention was granted to one province, although in this case the grant seems to have been an equitable one.

The growing demands upon provincial treasuries, accompanied by the *ad hoc* policy of the federal government toward disbursements, brought several of the provincial premiers together in 1887 to discuss changes and make recommendations to the federal government. Although the proposals were not accepted, it was the initial step toward the general revision carried out in 1907.

Table II shows the extensive piecemeal changes that occurred in the Dominion-Provincial subsidies and grants during the period 1867-1887. The purpose of this table is to illustrate the structural alterations and approximate financial effects.

In summary, it may be said that the supposedly fixed and final terms granted to each province upon its entry into Confederation soon gave way to a series of concessions, compromises and alterations. Between 1867 and 1887, the federal government subsidies increased 66 per cent, one province receiving as much as a 355 per cent increase within fifteen years. The reason behind these alterations was both political and economic. In some respects Confederation was hastily conceived as a compromise between the demand for complete union of the colonies on the one hand, and the desire to protect regional interests on the other. Because of the ever-present sense of urgency and haste, some details were neglected or accorded only peripheral attention.

Except for population allowances in some provinces, the arrangements were a financial straightjacket for both federal and provincial governments. There was little flexibility to account for an expanding Dominion and for variations in both population and provincial expenditure. As urbanization took place, the provinces were faced with layouts for education and transportation, especially where there existed little or no municipal organization. The newer provinces needed monies to initiate some development in order to attract people.

Invariably the demands of the provinces were met by the federal government, in many cases on the grounds that the support of the provinces was necessary for the continued existence of the Confederation. The claims of Nova Scotia in 1869 were granted as a rectification of an original mistake. The extra grant to British Columbia was a means of meeting the adamant demands of a new entrant into the federal fold. Manitoba received financial assistance far beyond its needs at the time of entry into Confederation. Norquay, the premier from 1878 to 1887, was a firm supporter of the Macdonald federal administration, and the increase in grants and subsidies can be partially explained in terms of this relationship. It is an interesting fact that most concessions were made immediately before or after federal elections, and that less than five went to governments whose party in power was opposite that of the Dominion.

In retrospect, it is difficult to find any other feasible alternative that could have been considered by the Confederation Fathers. The conference of 1887 is testimony to the fact that after twenty years, the provinces recognized that it was not possible to achieve the "full settlement of all future demands"[6] within the original financial structure due to the rapidly changing political and economic environment.

[6] B.N.A. Act, Section 18.

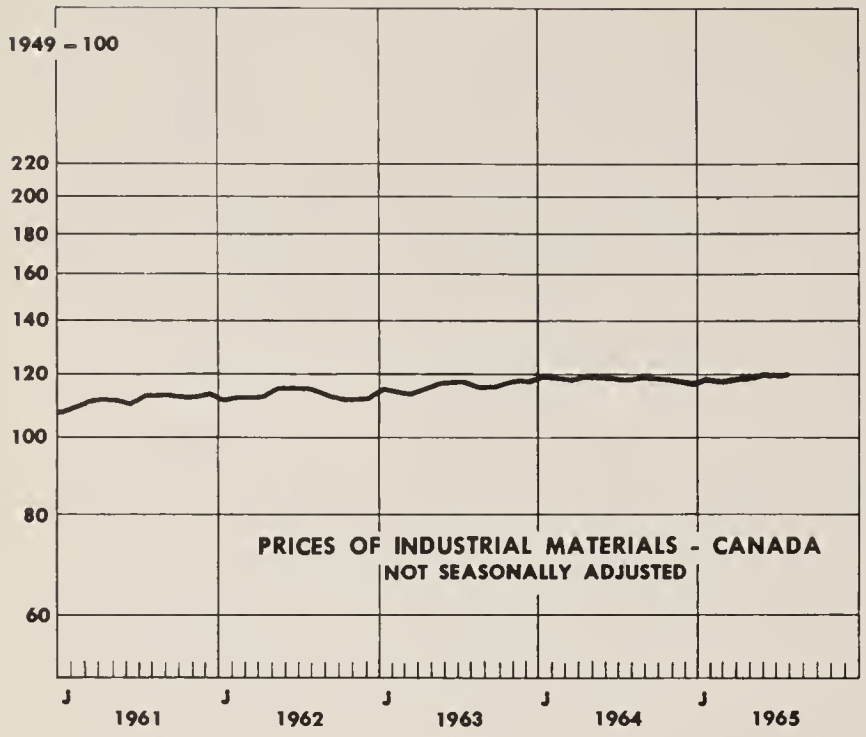
ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

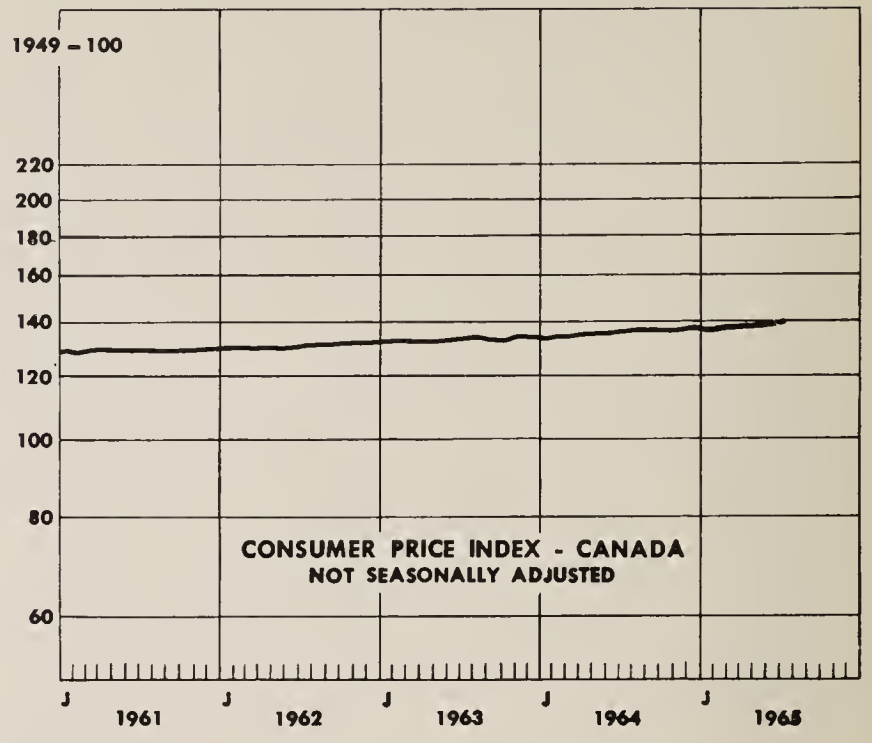
(* Figures for Canada)

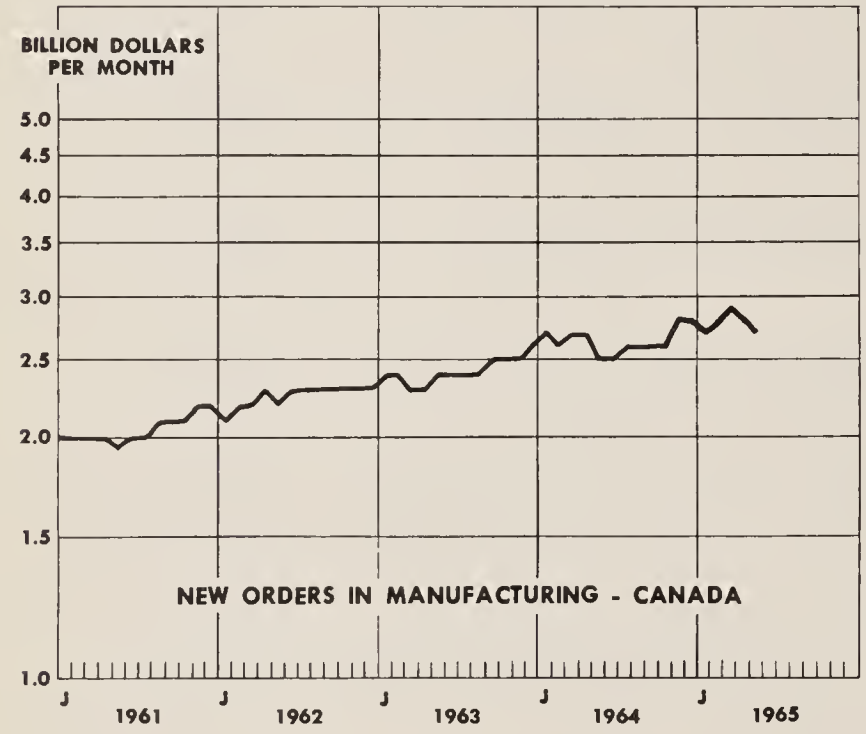
LEADING INDICATORS		1964 June	July	August	September	October	November	December	1965 January	February	March	April	May	June	July
Average Weekly Hours Worked in Manufacturing	(No.)	41.1	40.8	41.1	41.3	41.1	40.8	41.3	41.1	40.4	41.6	41.5			
New Dwelling Unit Starts	(No.)	4,238	5,213	4,626	4,068	5,303	5,962	5,559	4,318	5,798	5,006	3,916	5,118	5,496	
Business Failures	(No.)	102	95	81	77	97	59	84	93	73	108	64	89	74	65
Business Failures - Liabilities	$ Million	12.8	10.4	2.7	8.6	8.2	2.9	1.8	3.0	4.6	8.0	4.5	9.2	8.1	5.1
New Orders in Manufacturing*	$ Million	2,549	2,554	2,591	2,615	2,619	2,735	2,750	2,677	2,792	2,865	2,818	2,714		
Housing Contracts	$ Million	40.1	57.6	44.9	47.7	51.3	71.7	75.7	100.3	49.2	58.7	76.2	50.2	71.2	71.8
Business, Industrial and Engineering Contracts	$ Million	81.5	109.6	97.5	71.8	89.9	93.6	120.3	133.1	76.8	114.3	124.6	119.5	122.3	144.5
Money Supply*	$ Million	17,176	17,346	17,448	17,517	17,391	17,502	17,610	17,855	18,047	18,271	18,575	18,758	18,791	19,229
T.S.E. Index - 77 Stocks	1956=100	158.9	160.5	156.6	169.6	171.2	166.0	164.3	173.3	171.9	169.3	172.1	173.2	165.6	161.9
COINCIDENTAL AND LAGGING INDICATORS															
New Dwelling Unit Completions	(No.)	3,095	4,876	3,798	4,519	4,160	2,969	3,013	2,817	4,330	9,696	7,218	4,136	3,722	
Average Hourly Earnings in Manufacturing	$	2.13	2.13	2.16	2.17	2.15	2.14	2.16	2.19	2.19	2.22	2.23			
Gross National Product*	$ Million	46,684	- - - - - - - - -		47,392	- - - - - - - - -		48,016	- - - - - - - - -		49,676				
Cheques Cashed in Clearing Centres	$ Million	3,749	3,602	3,620	3,891	3,789	3,600	3,688	3,708	4,058	4,113	4,118	4,264		
Retail Trade	$ Million	602	608	611	610	623	618	635	630	636	641	648	679	673	
Labour Force	000's	2,575	2,570	2,571	2,564	2,561	2,564	2,565	2,614	2,590	2,598	2,597	2,603	2,635	2,634
Employed	000's	2,477	2,486	2,488	2,484	2,467	2,491	2,489	2,543	2,525	2,540	2,524	2,531	2,553	2,561
Unemployed	000's	98	84	83	80	94	73	76	71	65	58	73	72	82	73
Unemployed as % of Labour Force	%	3.8	3.3	3.2	3.1	3.7	2.8	3.0	2.7	2.5	2.2	2.8	2.8	3.1	2.8
Wages and Salaries(i)	$ Million	777	784	792	804	798	806	808	825	823	843	848	855		
Industrial Employment	1949=100	132.6	131.7	134.2	134.6	133.5	136.2	136.8	138.1	138.4	139.6	139.6	139.6		
Total Industrial Production*	1949=100	211.0	211.6	214.6	214.4	215.1	220.9	221.1	224.3	223.1	226.7	225.5	226.0		
Total Manufacturing		185.3	186.7	190.8	190.2	189.1	194.5	194.4	197.2	195.9	199.4	198.2	200.4		
Non-Durables		183.1	181.8	184.4	185.0	187.1	191.0	192.7	191.4	189.8	188.9	189.4	193.4		
Durables		187.8	192.6	198.3	196.3	191.4	198.6	196.4	203.9	203.1	211.8	208.6	208.5		
Mining		329.4	321.3	318.9	315.3	326.7	341.2	338.1	348.3	343.3	347.5	348.5	333.5		
Electric Power & Gas Utilities		405.4	407.4	403.7	416.1	426.9	421.8	434.1	429.6	437.4	441.8	436.3	440.3		
Primary Energy Demand (Annual Rate)	BKWH	40.98	41.01	39.79	41.08	41.81	41.29	41.72	42.13	42.86	43.46	42.52	42.14	43.06	42.59
ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED															
Domestic Exports*	$ Million	774.7	772.4	674.1	724.0	669.9	706.6	714.2	569.2	538.3	685.5	645.5	745.7		
Imports for Consumption*	$ Million	687.6	637.9	566.2	616.9	636.8	673.4	656.3	559.7	551.1	730.0	699.8	735.1		
Foreign Exchange Reserves*	US $ Million	2,534	2,534	2,576	2,625	2,687	2,743	2,674	2,668	2,649	2,554	2,567	2,499	2,480	2,492
Prices, Industrial Materials*	1935-39=100	257.8	257.3	259.9	258.8	258.0	258.5	256.2	256.7	255.3	256.3	256.6	258.5	260.4	261.4

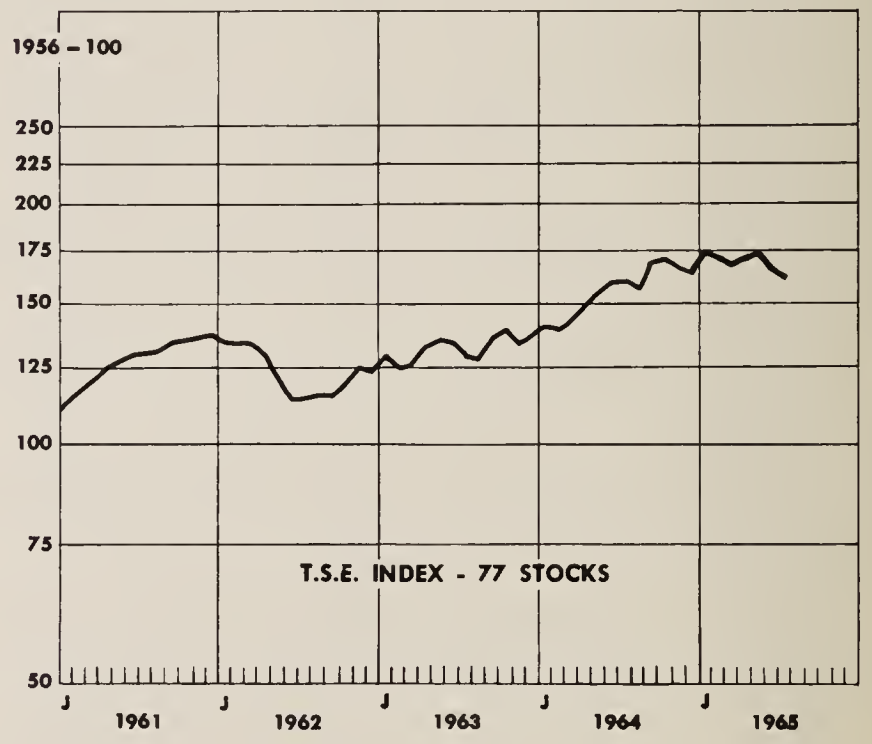
(i) Wages and Salaries series replaces Labour Income series.

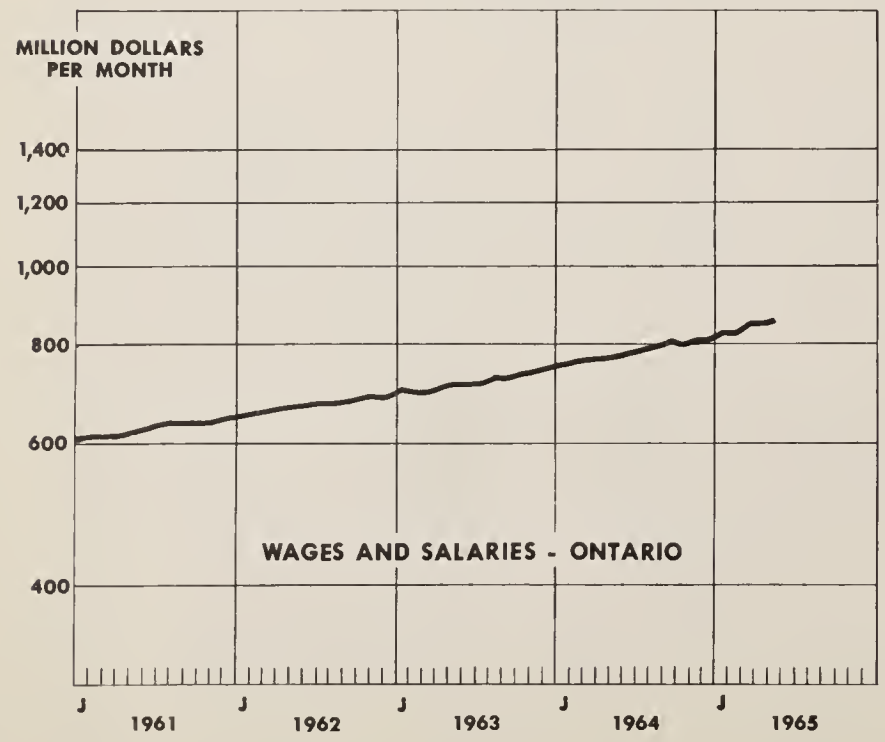
ECONOMIC INDICATORS – SEASONALLY ADJUSTED

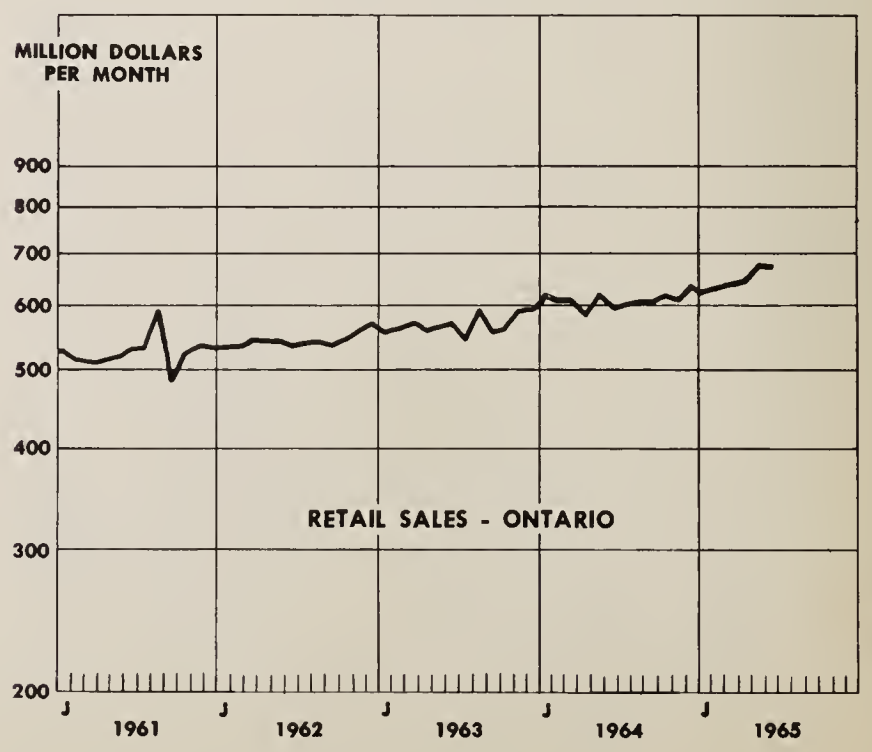




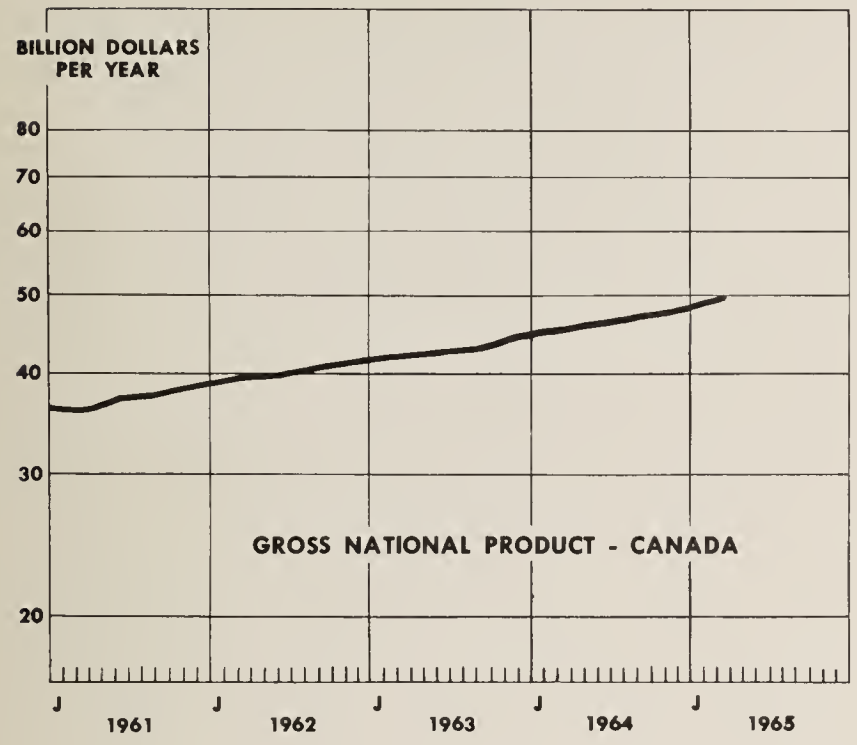


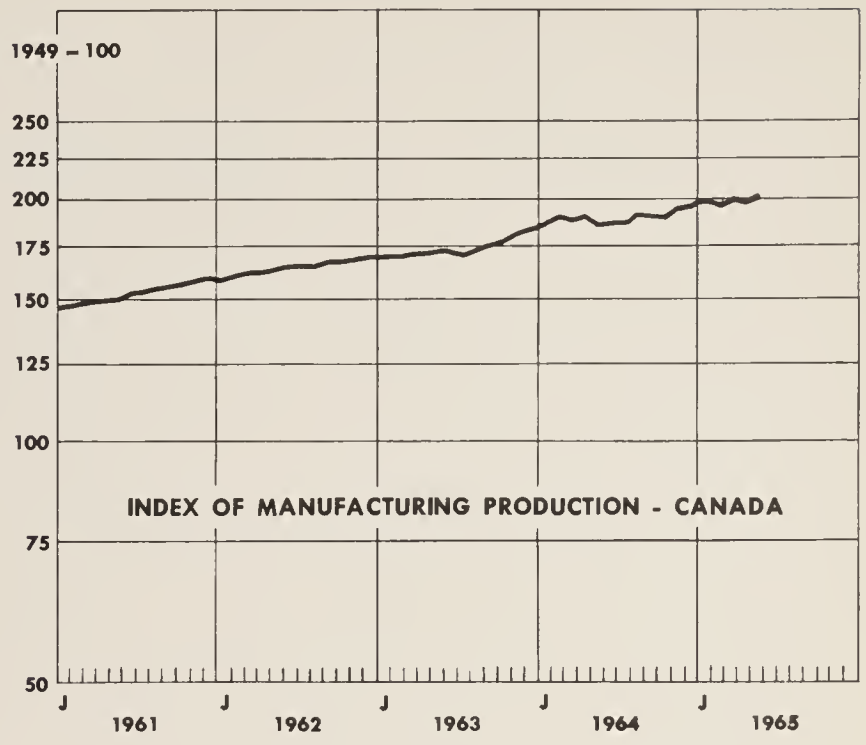


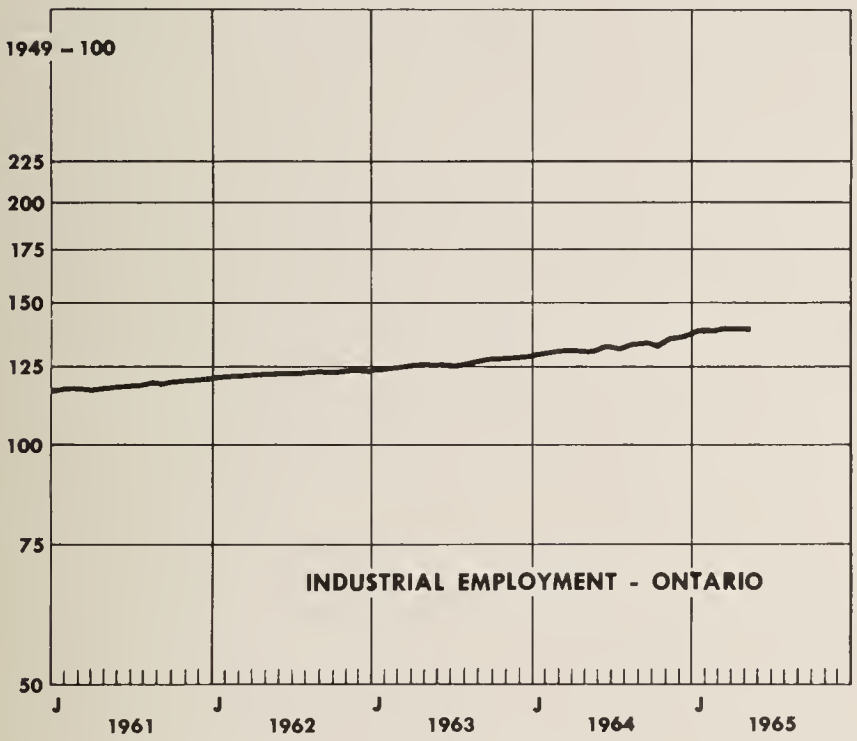


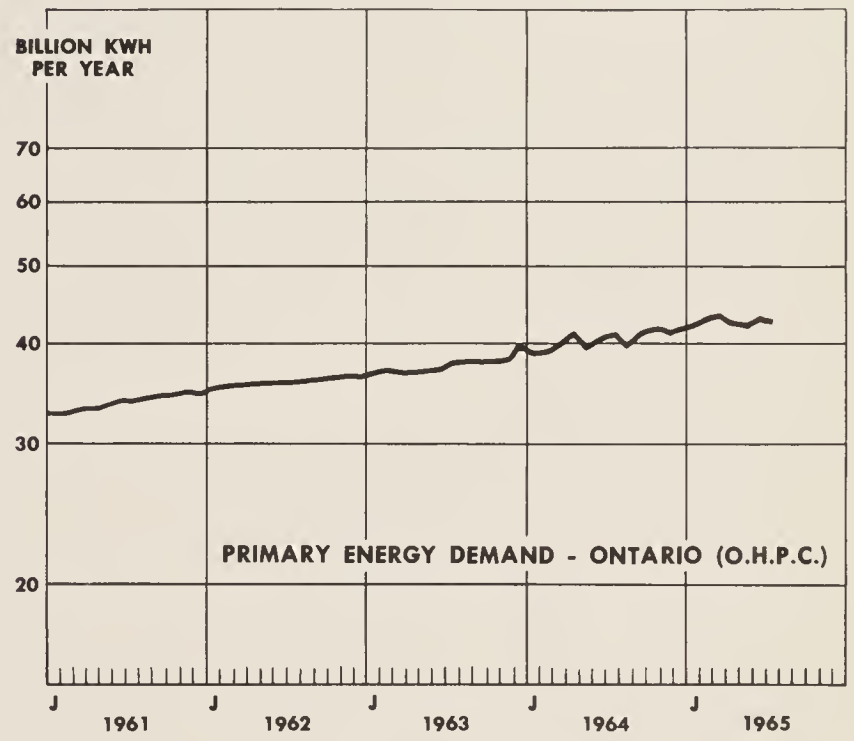


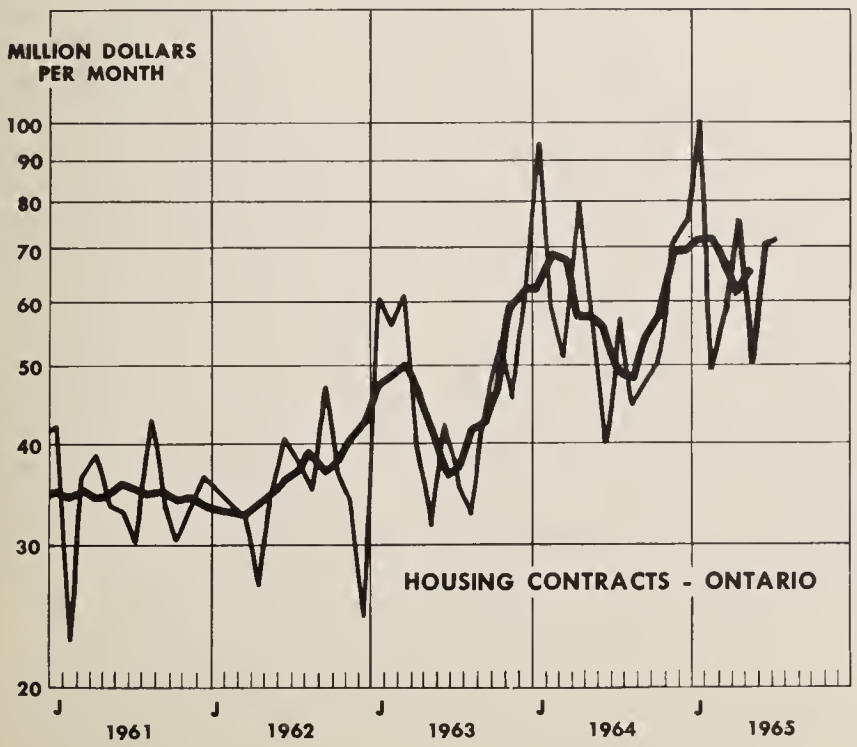
ECONOMIC INDICATORS—SEASONALLY ADJUSTED

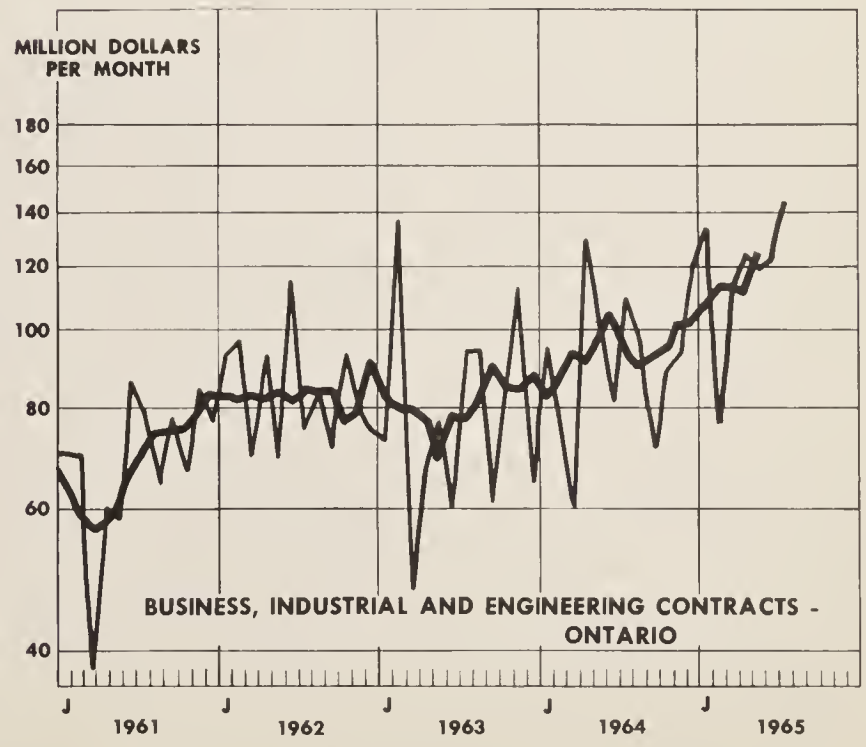












The Ontario Economic Review *is prepared and edited monthly in the Economics Branch of the Department of Economics and Development and is available free of charge. The review is intended to provide current information on economic activity in Ontario and to act as a forum for the results of research in the public service on matters affecting the Ontario economy. The signed articles reflect the opinions of their authors and do not necessarily represent the views of the Economics Branch. All correspondence should be directed to the Editor,* Ontario Economic Review, *Economics Branch, Department of Economics and Development, 950 Yonge St., Toronto 5.*

REFERENCE COPY

REFERENCE COPY
NOV 15 1965
Ont. Ministry of Treasury, Economics & Intergovernmental Affairs

ONTARIO ECONOMIC REVIEW

SEPTEMBER 19
VOL. 3
NO. 5

HA
747
0656
1965
VOL.3
NO.5

DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Hon. Stanley J. Randall, Minister

Stuart W. Clarkson, Deputy Minister

Ont. Ministry of Treasury, Economics & Intergovernmental Affairs
MAR 11 1981
81/761
LIBRARY

CONTENTS

The Ontario Economy 1

The Area Development Program 5

A Progress Report on the *Economic Atlas of Ontario*, *Professor W. G. Dean* 7

Indicators and Charts 9

THE ONTARIO ECONOMY

The high level of employment in Ontario continued to reflect favourable conditions within the province. In August unemployment was at a near-record low of 2.6% of the labour force, seasonally adjusted. Also indicative of the continuing expansion in Ontario was the $122.9 million value of larger construction contract awards in September.

Latest DBS figures reveal that in the second quarter of 1965 the Gross National Product was at an annual rate of $50,948 million, up 1.8% over the first quarter rate. This marks the third successive quarter in which the economy has experienced a powerful sustained growth in final domestic demand. Statistics on the Canadian Balance of Payments, also available for the second quarter of 1965, reveal a slightly reduced but nevertheless still large deficit in the current account. The merchandise import balance which only developed in the last six months has accounted for much of this increased deficit.

Production

The seasonally adjusted Canadian Index of Industrial Production rose to a level of 226.1 in June (based on 1949=100), approaching the record level of 226.7 set in March of this year. This June figure represents an increase of 0.3% over May, and of 7.2% over the June 1964 level. Total manufacturing production – the major component of the Index – rose to 200.6 at the same time. This increase of 0.2% over the previous month was the end result of two opposing movements: the 1.2% increase of durable goods production to 211.1 and the 0.8% decline of non-durables to 191.6. Motor vehicles and iron castings were the important contributors to the growth of durable goods production, while the decline of non-durable goods was due mainly to declines in foods and beverages and rubber products. The mining index rose by 0.9% in June to a level of 336.0; significant here were the 4.5% increases in both gold and coal production. Electric power and gas utilities moved up only fractionally from 433.0 in May to 433.5 in June.

Steel ingot production in August totalled 858.4 tons, up 12.9% from August 1964; the January-August figure of 6,557.3 tons was 10.4% higher than that of the comparable 1964 period. Pig iron production displayed a roughly similar pattern of growth, climbing 10.2% from August 1964 to a level of 634.0 tons in August 1965. However, the production increase from last year's January-August figure to this year's 4,683.5 tons was a smaller 6.4%.

The value of shipments in all manufacturing industries in Ontario rose to a record level in June. At $1,530.8 million, the figure was more than 50% of the total Canadian figure, reflecting the high concentration of manufacturing in Ontario. Growth since last June has been about 10.4%.

Construction

Total building activity in Ontario during the nine month period January-September was up considerably, as reflected in the 24.4% increase in construction contract awards over the comparable 1964 period. At a value of $1,671.2 million this represented 41.1% of the national value. However, the value of housing contracts awarded in Ontario during August, according to revised seasonally adjusted statistics, dipped to $59.1 million, a decline of 22.4% from the July figure of $76.2 million. Yet this does represent a 9.0% increase over the August 1964 value. In similar fashion the value of Business, Industrial and Engineering contracts awarded declined over the month by 10.0% to $115.0 million seasonally adjusted, but still was 27.8% higher than the August 1964 figure of $90.0 million.

In July construction began on 4,770 dwelling units (seasonally adjusted), down 17.8% from the near-record level of the previous month. New dwelling

unit completions that month were also down, in this case to a very low seasonally adjusted level of 2,153 – a drastic decline of over 46% from June.

The value of "big jobs" in Ontario – each valued at over $1 million – was $122.9 million in September, over 38% of the value of "big jobs" in all of Canada. Some of the more significant ones are listed below.

LARGE CONSTRUCTION AWARDS PLACED RECENTLY IN ONTARIO

Location	*$ Million*	*Description*
Belleville	9.7	Hospital addition
Brampton	1.5	Court house
Etobicoke Twp.	4.6	Housing
Fergus	4.0	Plant
Kingston	1.1	School
Nepean Twp.	1.0	Office and plant addition
North York Twp.	8.0	Addition to home for the aged
North York Twp.	5.0	Office building extension
Oshawa	2.1	School
Ottawa	7.0	Shopping centre
Port Arthur	2.3	Hospital addition
St. Catharines	1.3	Apartments
Sarnia	25.0	Oil refinery units
Toronto	5.9	Rapid transit structures
Toronto (Metro)	4.4	Apartments
Welland	1.1	Welland Canal improvements
Windsor	3.0	Department store
Various locations	9.8	Provincial highway projects

Finance

A moderate tightness in the supply of loanable funds characterized credit conditions on the Canadian money market during August. Reflecting this situation, the day-to-day loan rate remained generally unchanged throughout the month at a level of 4 per cent.

Investor interest on the Canadian bond market, while generally withdrawn early in August, was activated later in the month through the offering of a new three-part $450 million Government of Canada refunding issue. The largest portion of the floatation ($205 million) carried a 3¾% coupon with a one-year maturity, while the two remaining parts consisted of $100 million 5¼% bonds due May 1, 1990 and $145 million 5½% bonds due on October 1, 1969. The attractive prices available on these new issues in relation to comparable outstanding maturities combined with the announcement of a new $450 million wheat sale to Russia prompted a resurgence of buying interest. As a consequence, fractional price gains were generally registered by outstanding issues in all sectors of the Canadian bond markets over the month.

New Canadian bond financings for the first eight months of 1965, at $2.85 billion, were 40.8% higher than last year's comparable total of $2.03 billion. Prominent amongst this month's additions to the total was a Province of Ontario $50 million debenture issue, on behalf of Ontario Hydro, that was successfully marketed in the United States.

The reversal of the downtrend in equity prices in most sectors of Canadian stock markets which commenced in the closing few sessions of July was maintained during August. Generally, equity prices appreciated, particularly in the Industrial sector. The Toronto Stock Exchange Industrial Index, for example, closed the month at a level of 164.78, a gain of some 3.40 points on Index over the month.

Canada's official holdings of gold and U.S. dollars rose substantially during August to $2,598 million from $2,491 million at the end of July. Concern is presently being expressed regarding these reserves because they now exceed by some $100 million a predetermined limit set by U.S.-Canada agreement in exempting certain Canadian borrowings in the United States from the U.S. interest equalization tax.

In terms of U.S. funds, the value of the Canadian dollar appreciated steadily during August to close the month at a level of 92.97 cents – a gain of 0.47 cents over the period.

Gross National Product

Gross National Product in the second quarter of 1965 rose to a seasonally adjusted annual rate of $50,948 million according to recently published DBS figures.(1) This represented a 1.8% increase over the revised annual rate of the first quarter of this year. With prices about 1% higher, the increase in real terms was less than half of the reported quarterly advance. Yet while the increase here was slightly below that of the preceding period, it can be said that final domestic demand in the Canadian economy has grown at a sustained pace in the past three quarters. Leading the way has been consumer spending, which grew 2.8% – its highest rate of growth since the beginning of the current expansion. At the forefront have been the purchases of durables, which moved ahead of their high first quarter level, and the growing expenditure on services. While outlays for non-durables grew substantially as well, most of the growth has been attributed to price increases in this area.

(1) For details of Gross National Expenditure see table, page 4.

Another significant area of Gross National Expenditure has been business gross fixed capital formation, up more than 2% over the first quarter, largely because of increased outlays for plant and equipment. Government outlays for goods and services rose 2.5%, mainly due to large capital outlays at the municipal level. Moderating the total government advance was the lower Federal expenditure, the result of decreased payments for military equipment. A substantial accumulation of business inventories was in evidence, the result of an excess in the growth of domestic production and imports over the expansion in final demand. Yet, this was significantly below the very high level of the first quarter.

On the income side the notable features were the continued growth of labour income — although down from the unusually high rate of the first quarter — and the unchanged high level of corporate profits. Finally, in spite of rising national income, personal income actually fell over 1%. The sharp reduction in Canadian Wheat Board payments to farmers, after an all-time high in the first quarter, provides the explanation for this divergence.

Canadian Balance of Payments

Largely because of an import balance in merchandise trade, the deficit in the Canadian Balance of Payments remained relatively high in the second quarter of 1965. According to recently published DBS figures the deficit in the current account balance was $360 million. While this was down from the $397 million deficit of the first quarter, it did not compare as favourably with the second quarter of 1964, at which time the deficit was only $148 million.

A summary statement of the Balance of Payments is presented below.

The most significant change over the year's time truly has been the disappearance of the export balance enjoyed last year. At that time extensive wheat and flour shipments to Communist countries contributed to the favourable trade balance. But in spite of the fact that these food exports have not reappeared as prominently this year, there has been a positive growth in some other export categories, particularly exports of inedible end products — in part compensating for what would otherwise have been a substantial decline in exports. The net result has been only a moderate growth in total exports. What has affected the trade balance has been the rapid growth of imports, largely due to the rise in income in Canada.

The non-merchandise trade deficit, at $328 million, also showed slight improvement over the first quarter, but was still $30 million greater than a year earlier. Accounting for most of this increase were enlarged net payments on travel and freight and shipping. The deficit on interest and dividend payments was $162 million, as dividend outflows rose $14 million to a level of $129 million and interest payments rose $13 million to a level of $107 million.

Looking at the first six months of 1965 compared with that period in 1964, the current account deficit has increased about 55%, rising to $757 million from $486 million.

Although wheat and flour exports declined by more than $200 million, passenger cars and motor vehicle parts were up over $70 million, non-ferrous ores and alloys were up more than $60 million, and newsprint and wood pulp were up $20 million and $15 million respectively. The result was a modest growth of 2% to $4,015 million. Imports, on the other hand, rose by 9% to $4,088 million. This gain tended to be more generally distributed amongst

CANADIAN BALANCE OF INTERNATIONAL PAYMENTS

	1964	*1965*	
	2nd Q	*1st Q*	*2nd Q*
Merchandise balance	+ 150	— 41	— 32
Non-merchandise balance	— 298	— 356	— 328
Current account balance	— 148	— 397	— 360
Capital movements(1)	+ 216	+ 325	+ 361
Long-term	+ 152	+ 155	+ 93
Short-term	+ 64	+ 170	+ 268
Change in official holdings of gold, foreign exchange, and net balance with I.M.F.	+ 68	— 72	+ 1

(1) Excluding change in official exchange holdings.

imports, with just a small degree of concentration evident in machinery and equipment, automobiles and parts, and certain industrial materials.

A half-year comparison of non-merchandise items in the Balance of Payments in 1965 and 1964 reveals that there has been a 2% increase in net payments, bringing this deficit to $684 million. Almost one half of the net payments here were accounted for by the $332 million deficit on interest and dividends; travel expenditures accounted for another 22% of non-merchandise net payments.

When looking at trade in goods and services by area, it can be seen that Canada's deficit with the United States grew to $1,126 million in the first six months of this year – an increase of 6% over the same period last year. About 40% of this increase was ascribable to the growing deficit in merchandise trade. Once again Canada enjoyed a current account surplus with the United Kingdom – $244 million – although the merchandise surplus declined about 6% over the year to $265 million. Countering this was a $20 million reduction in the non-merchandise deficit, a result of lower payments and higher receipts of interest and dividends as well as increased business service receipts.

Capital movements in the second quarter of 1965 tended to be more heavily concentrated in short-term forms than had been observed in the two preceding quarters. Thus while the net inflow of long-term capital movements dropped from $155 million in the first quarter of 1965 to a low $93 million in the second, the short-term inflow increased from $170 million to $268 million. The decline in the inflow of long-term capital mainly was attributable to the unusually high retirement of outstanding Canadian securities. This was due to the financial reorganization of a finance company after its acquisition by new interests in the United States. The growth of the short-term capital inflow resulted from changes in Canadian holdings of bank balances and other short-term funds abroad, following a period during which these balances had been accumulated.

GROSS NATIONAL EXPENDITURE

By Quarters, 1964 and 1965, Seasonally Adjusted at Annual Rates

(Millions of dollars)

	1964					1965	
	I	*II*	*III*	*IV*	*Year*	*I*	*II*
1. Personal expenditure on consumer goods and services	28,852	29,040	29,684	30,148	29,431	30,512	31,372
2. Government expenditure on goods and services[1]	8,564	8,524	8,544	8,796	8,607	9,120	9,344
3. Business gross fixed capital formation[2]	8,944	8,828	8,720	9,380	8,968	10,052	10,272
4. New residential construction	2,176	1,908	1,872	2,128	2,021	2,156	2,184
5. New non-residential construction	3,164	3,244	3,376	3,588	3,343	3,948	4,028
6. New machinery and equipment	3,604	3,676	3,472	3,664	3,604	3,948	4,060
7. Value of physical change in inventories	452	448	388	232	380	1,208	972
8. Non-farm business inventories	572	616	804	48	510	944	676
9. Farm inventories and grain in commercial channels[3]	−120	−168	−416	184	−130	264	296
10. Exports of goods and services	9,996	10,604	10,756	10,404	10,440	10,552	10,808
11. Deduct: Imports of goods and services	−10,840	−10,772	−10,784	−11,076	−10,868	−11,520	−11,852
12. Residual error of estimate	−48	12	84	132	45	116	32
13. GROSS NATIONAL EXPENDITURE AT MARKET PRICES	45,920	46,684	47,392	48,016	47,003	50,040	50,948

(1) Includes outlays on new durable assets such as building and highway construction by governments, other than government business enterprises. Also includes net purchases of government commodity agencies.

(2) Includes capital expenditures by private and government business enterprises, private non-commercial institutions, and outlays on new residential construction by individuals and business investors.

(3) In the seasonally adjusted series, the value of grain production in each quarter is taken as one-fourth of the estimated value of crop production for the year as a whole. All other items in the farm inventories series are seasonally adjusted by standard techniques.

THE AREA DEVELOPMENT PROGRAM

In the August 1965 issue of the ONTARIO ECONOMIC REVIEW *there appeared an outline of ARDA, the Agricultural Rehabilitation and Development Act, a significant joint venture of the federal and provincial governments to alleviate agricultural and rural problems in Canada. The following article describes another program, one undertaken by the Government of Canada.*

One of the most significant examples of the recent emphasis on regional development has been the Government of Canada's Area Development Program. Having as its objective the alleviation of regional unemployment and income problems, the Program has sought to achieve it by encouraging the establishment of manufacturing and processing industries in the specific problem areas. Short-term incentives of various forms have been provided these firms to make attractive the relocation or establishment of new plants in these areas. While some relatively minor changes have been made recently, the basic intent of the Program has remained the same: that is, through the creation of new employment opportunities to increase incomes and foster improved economic growth and development in the selected regions.

The Original ADA Program

ADA, as this Program recently has been referred to, originally came into being in 1963, following the passage of the Department of Industry Act. The Minister of Industry, with whom responsibility for the Act lay, established in the Department of Industry an Area Development Agency. It was to be the responsibility of the Area Development Agency to administer ADA programs, working in close collaboration with other federal agencies, provincial and municipal authorities and industrial and commercial interests.

One of the first requirements was that of dividing the country into regions; because of the use of employment data it was decided that National Employment Service (NES) office areas be used. By means of selected criteria specific NES areas were designated for inclusion in the Program. Qualification depended on the satisfaction of one of the following conditions:

(i) It must have been classified by the Department of Labour as a labour surplus area for at least half of the months May to October during the previous eight years, and must have experienced a growth in the volume of employment less than half the national average during the same period.

(ii) It must have been classified as a labour surplus area for a third of the months May to October during the past eight years, and must have suffered a *decrease* in employment during the same period.

(iii) It must have been classified as a labour surplus area for at least half the months May to October during the past eight years, and must have suffered a *decrease* in employment in *each* of the past three years.(1)

In the latter part of 1963 the Federal Government designated 35 NES office areas in Canada by virtue of their having qualified under the Program. The provincial distribution included one in Newfoundland, seven in Nova Scotia, five in New Brunswick, thirteen in Quebec, eight in Ontario and one in Alberta. The Ontario areas were Windsor, Chatham, Wallaceburg, Brantford, Cornwall, Pembroke, Elliot Lake and Timmins.

Three incentives were offered to manufacturing and processing industries. If they established in these areas they could obtain exemption from corporation income tax for three years after the commencement of commercial production. Most new industrial machinery and equipment for use in manufacturing and processing could be written off in two years as opposed to a normal annual rate of 20% on a diminishing balance basis. All depreciable buildings acquired in designated areas could qualify for accelerated capital cost allowances, permitting them to be written off in five years on a straight line basis instead of the normal 5 per cent a year on a diminishing balance basis.

Originally it was intended that these incentives be available until September 4, 1965. However the final date was eventually extended to March 31, 1967.

Progress Under the Program

In Ontario the initial ADA Program produced significant results both in investment and employment in several urban centres. Because of improved eco-

(1) Another provision, however, prevented an area from being designated under certain stated conditions which were considered to show that unemployment in the area was diminishing satisfactorily.

nomic conditions in Brantford and Pembroke, these two centres were de-designated in September 1964.

Across Canada the Program has involved over 250 firms, which indicated an intention to take advantage of the incentives. Employing over 18,500 workers in their plants, or about 3% of the labour force in all designated areas, these new establishments will create roughly an equal number of jobs in the construction, supply and service industries. The investment involved promises to be in excess of $560 million – an average investment of about $30,000 for each worker employed in the new plants.

While the Minister of Industry maintained that progress was good, he nevertheless stated that certain changes were desirable. By the very nature of the assistance given – income tax incentives – only firms able to reach a profit position at an early date in their new operations were able to benefit substantially. Other firms which had to provide for market development and other settling-in costs in the early years of operation were not benefiting to the same extent. Still other firms, particularly smaller ones, experienced difficulties in initial financing, making it impossible for them to make use of the Program.

The desire to incorporate in the ADA Program a larger portion of the national labour force was also significant in this respect. Under the existing plan only about 7½% of the national labour force had been involved. The Agency was also concerned about the unsatisfactory distribution of assistance. Four of the thirty-five NES office areas – Windsor, Brantford, and Cornwall in Ontario and St. Jean in Quebec – accounted for about three-quarters of the assistance given.

The 1965 ADA Program

In June of 1965 the House of Commons passed the Area Development Incentives Act, effective July 1, 1965. This Act established a new Area Development Account out of which funds would be made available for development grants to manufacturing and processing industries. Any such industry either establishing new facilities or expanding existing facilities would be eligible for a grant. Further, the grant was to be exempt from federal income tax but did not reduce the amount of capital cost which might be used for tax purposes.

In August complete details of the new Program under this Act were announced. The Program was to be operative until March 31, 1971. Where new facilities were being established, the grant formula could be

(i) one third of approved capital costs up to $250,000;

(ii) the amount in (i) plus one-quarter of the amount of approved capital costs between $250,000 and $1,000,000;

(iii) the amount in (ii) plus one-fifth of the amount of approved capital costs in excess of $1,000,000, up to a maximum grant of $5,000,000.

In the case of the expansion of existing facilities the same formula was to be applied to a slightly reduced figure based on approved capital costs. The maximum development grant could not exceed $5,000,000.

Under the new Program the criteria for designated areas have been altered to include factors such as income. Counties and census division too have been made eligible. The new criteria for designation allow the inclusion of:

(i) NES areas with continued high unemployment, or those with less high unemployment but low growth of employment, provided in either case that average annual family income in the area is less than the national average of $5,449;

(ii) NES areas where employment has been declining 10% each year for the past five years;

(iii) (a) NES areas with an average annual family income below $4,250;
(b) NES areas in which 40% or more of the families have an average annual income below $3,000;

(iv) a county or census division with average annual family income below $4,250, provided it is contiguous to a designated area and which together with it form an economic region or district;

(v) a group of NES areas recognized as a distinct geographic and economic region which, considered as a whole, meets the foregoing criteria;

(vi) previously designated NES areas where the rate of unemployment relative to the national average is not lower in the past year than the average of the past five years.

Under these criteria 65 NES areas and 16 counties and census divisions have been designated. In Ontario ten such areas exist. Along with the specific criterion used in each case, they are: Bracebridge and Parry Sound NES areas (low average family income); Sturgeon Falls NES area (high unemployment); Elliot Lake NES area (declining employment); Owen Sound, Collingwood and Midland

NES areas (recognized as an economic region); and Haliburton county and the districts of Manitoulin and Parry Sound (contiguous areas).

Five Ontario areas formerly included have been de-designated because they no longer qualify under the revised criteria. They are Chatham, Cornwall, Timmins, Wallaceburg and Windsor.

Conceptually the 1965 ADA Program has provided many features not present in the original Program. Now covering an area containing about 16% of the national labour force, it makes available grants which can be used to finance the establishment of industries. It also enables each recipient to enjoy the full measure of benefit from the incentive.

However ambitious this Program may appear from the stated objectives, it is too early to determine its impact on the regions involved. Only after an adequate time has elapsed will it be possible to measure its success by the actual improvement in employment and income.

A PROGRESS REPORT ON THE ECONOMIC ATLAS OF ONTARIO

PROFESSOR W. G. DEAN
Department of Geography
UNIVERSITY OF TORONTO

As a result of major financial assistance from the Department of Economics and Development over the past summer the end of the research phase of the *Economic Atlas of Ontario* is now in sight. By April 1966 all research objectives will be completed as far as presently available statistical data permit.

Because this atlas is in itself a research project and the material derived from it will provide basic information for further economic and planning research, it is significant that the data sources for economic studies have been thoroughly examined. By and large the major sources have proven to be disappointing for rather detailed work. Published economic data from such sources as D.B.S., N.E.S., the Department of Internal Revenue, etc., while providing useful aggregates, have not been sufficiently detailed for a study in which a graphical presentation of the principal economic relations *within* Ontario are attempted. Nonetheless, despite these data limitations, with the aid of special research techniques over the past two and one-half years phenomenal progress has been made in mapping the outstanding aspects of Ontario's economy. When one compares the maps already prepared with those of other more "standard" atlases which took as long as twelve years to compile, the new conceptions and cartographical applications of economic data in the Ontario atlas fully justify the term "phenomenal". Numerous economic thematic maps, in many cases of a nature never before tried, have been completed. When these are published they will provide useful sources of research material for many practical business purposes.

While the term "atlas" usually evokes images of capes and bays and islands, the *Economic Atlas of Ontario* is different. It will be possible for the reader to locate most places in Ontario, but more important, at the same time he will be able to assess the relative economic importance of a particular place from a number of points of view. As an example, the market potential for consumer goods is mapped for the whole province—with Montreal included. The mapping of this phenomenon clearly demonstrates the relevance of the market in manufacturing. Furthermore, in the manufacturing section, this seldom challenged locational cliché is substantiated in the maps analysing the industrial structure of urban centres. This is clearly shown also in maps depicting the principal factors of location with regard to energy availability, consumption and costs along with analyses of labour, water and other factors. Such analyses make this atlas an aid to industrial location and relocation. Maps of place accessibility to transportation and the availability of various kinds of carriers also aid in the assessment of the value of a particular industrial or business location.

The functional and service characteristics of all towns over 500 people are carefully presented as the basis of trading areas and an analysis of market

penetration derived from studies of population characteristics, disposable income and retail sales.

Further maps demonstrate the share of Ontario's contribution to the national economy through a taxation index and other measures. Similarly, the counties of Ontario are measured in a number of ways in order to demonstrate not only their degrees of specialization and diversity of economic activities, but also their economic "health". The larger urban centres are examined in a fashion which shows their manufacturing structure, functional aspects, division into "social" zones, and economic viability.

Unique in this atlas is a series of maps showing the recreational resources and the uses of these resources in Ontario. As an element of ever increasing importance, recreation is analysed and mapped in a detail never before achieved, including both the public and private sectors. Because of the reliance of recreation on physical elements, these are stressed in this section – the relation of snowfall to ski resorts is an example. Other aspects of the physical environment obviously have a profound effect on agriculture. Thus, in the survey of agriculture starting with a map measuring agricultural "productivity" in monetary terms, the relevant physical elements are included. But, important as these physical elements may be, the section on agriculture is primarily an analysis of the costs, problems and returns from this basic industry. It is clearly shown that while agriculture is of relatively little total value within Ontario's economy, still this province accounts for roughly one-quarter of the total agricultural production of Canada.

Public administration is of vital importance in any economic development. Therefore, a major section of the *Atlas* is devoted to a summary of the role of administration and political control in the province. Starting with maps showing the influence of the original surveys on settlement and urban expansion, this section comprises a series of electoral maps followed by graphical displays of the various administrative elements at the provincial and municipal levels. These include maps on planning administration, public health, forestry, land ownership, municipal development, etc.

It is the purpose of the *Atlas* to be a source of useful primary and research information, besides being a standard reference for business, industrial and governmental organizations. It should also have considerable academic and educational value. Thus the presentation of material is consistent with the latest techniques of the graphic arts and is designed to be intelligible to the layman. In a number of cases, complex statistical devices have been computerized for clarity, but the representation of such material is simplified and shown as a provincial pattern. It is in this way too that the problem of absolute values is alleviated. The data base period for the *Atlas* is 1961-1965, but in every possible case this data is expressed in a ratio form so that the problem of "dating" is overcome. The assumption is that, although rapid changes may take place over a few years, the basic patterns of economic activity will remain substantially the same.

The final work of over 100 plates, comprising about 450 maps, when published in the spring of 1967 by the University of Toronto Press, will be a unique and useful source of information on Ontario. It certainly will be a colourful and original work, worthy of the proud place of Ontario in the economic structure of Canada.

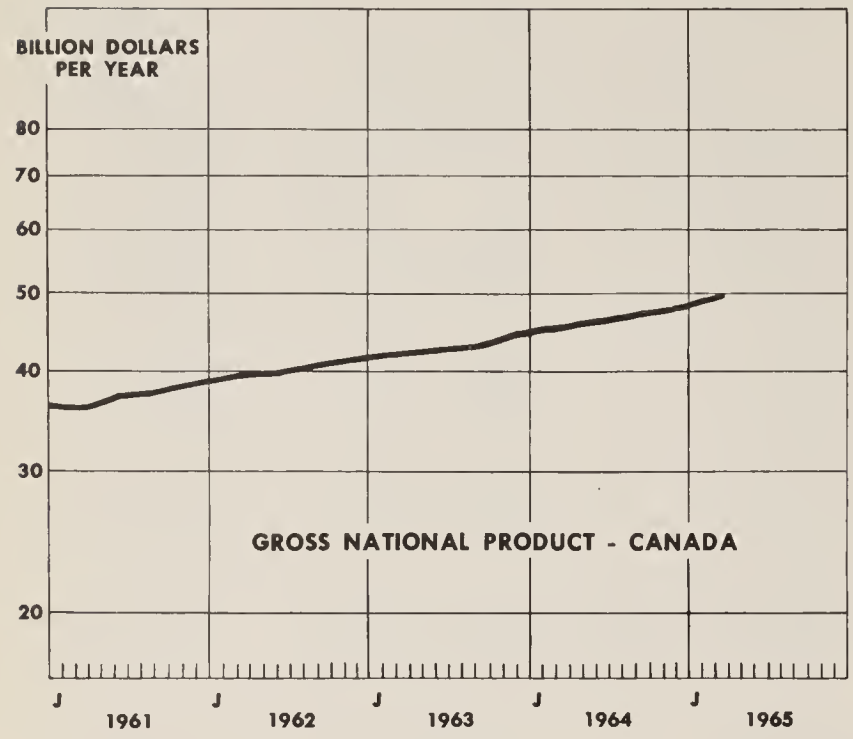
ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

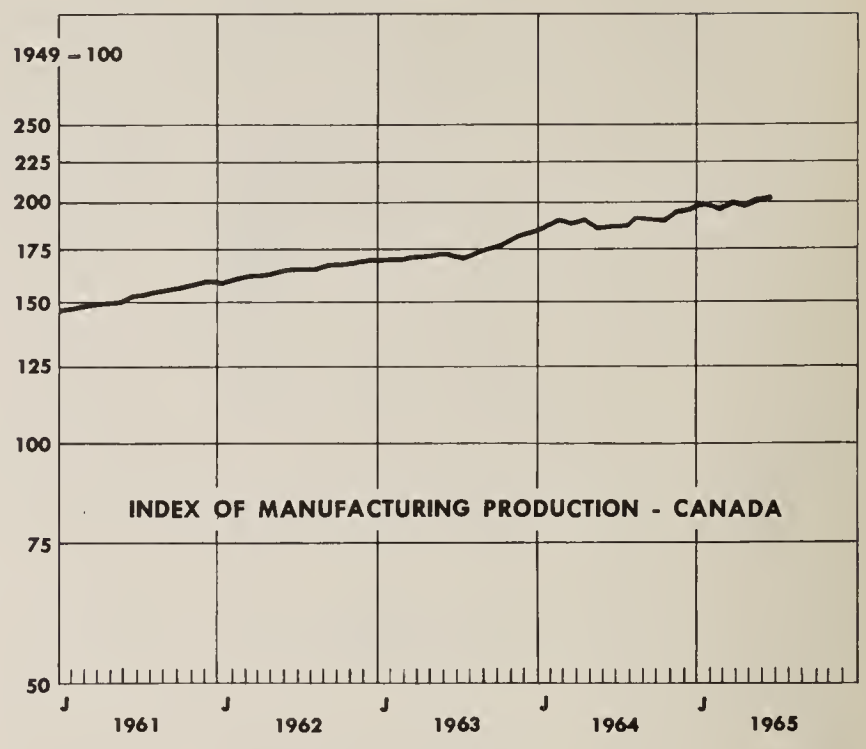
(* Figures for Canada)

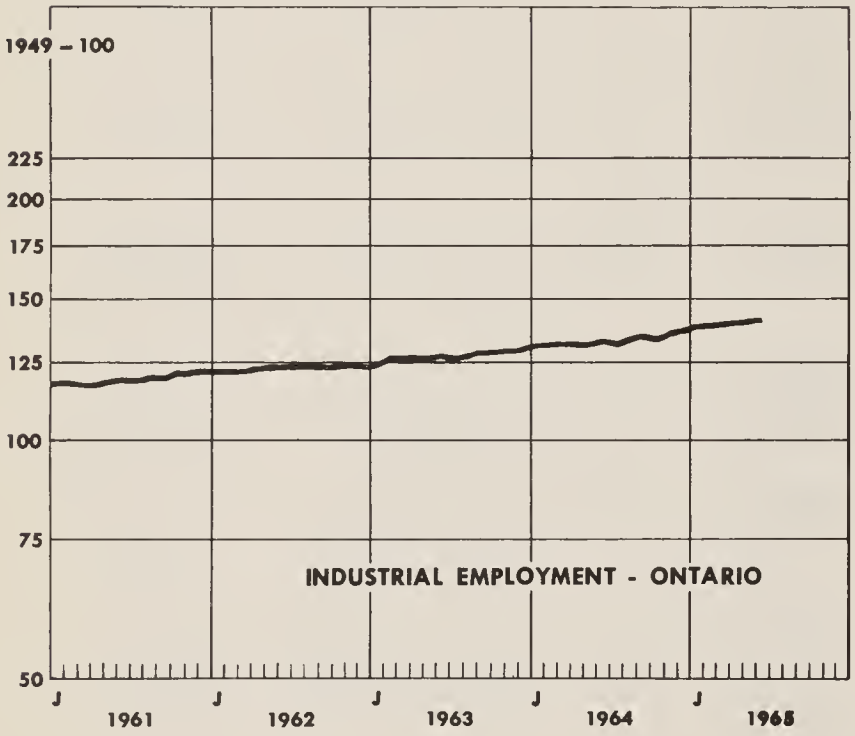
		1964						1965							
LEADING INDICATORS		July	August	September	October	November	December	January	February	March	April	May	June	July	August
Average Weekly Hours Worked in Manufacturing(1)	(No.)	41.0	41.2	41.2	41.4	40.8	41.1	41.0	40.3	41.7	41.5	41.0			
New Dwelling Unit Starts(1)	(No.)	4,983	4,509	4,469	5,209	6,183	5,138	4,107	5,815	5,353	3,848	5,010	5,806	4,770	
Business Failures(1)	(No.)	94	83	77	93	59	78	90	77	130	67	87	65	62	83
Business Failures - Liabilities(1)	$ Million	8.3	3.0	6.3	6.9	3.1	2.1	3.4	10.3	8.9	4.0	5.3	4.6	4.0	20.7
New Orders in Manufacturing*	$ Million	2,554	2,591	2,615	2,619	2,735	2,750	2,677	2,792	2,865	2,818	2,729	2,798		
Housing Contracts(1)	$ Million	61.2	54.2	54.7	54.4	70.8	62.5	67.9	48.1	57.9	67.3	53.7	70.9	76.2	59.1
Business, Industrial and Engineering Contracts(1)	$ Million	96.9	90.0	76.9	86.1	83.1	117.9	113.5	80.3	143.9	109.3	117.9	135.9	127.8	115.0
Money Supply *	$ Million	17,346	17,448	17,517	17,391	17,502	17,610	17,855	18,047	18,271	18,575	18,758	18,791	19,229	19,619
T.S.E. Index - 77 Stocks(1)	1956=100	162.6	160.4	169.1	169.7	168.5	165.6	170.9	172.8	170.7	171.1	169.5	163.0	163.9	166.8
COINCIDENTAL AND LAGGING INDICATORS															
New Dwelling Unit Completions(1)	(No.)	4,178	3,714	4,287	3,806	3,432	3,236	3,667	3,727	8,392	7,115	4,518	4,019	2,153	
Average Hourly Earnings in Manufacturing(1)	$	2.13	2.16	2.16	2.14	2.14	2.15	2.19	2.20	2.23	2.22	2.22			
Gross National Product *	$ Million	- - - - - - -		47,392	- - - - - - - - -		48,016	- - - - - - - - -		50,040	- - - - - - - -		50,948		
Cheques Cashed in Clearing Centres(1)	$ Million	3,661	3,656	3,887	3,820	3,678	3,765	3,773	3,869	3,981	4,127	4,211	4,097		
Retail Trade(1)	$ Million	622	619	628	630	625	624	617	631	641	659	672	679	672	
Labour Force	000's	2,570	2,571	2,564	2,561	2,564	2,565	2,614	2,590	2,598	2,597	2,603	2,635	2,634	2,641
Employed	000's	2,486	2,488	2,484	2,467	2,491	2,489	2,543	2,525	2,540	2,524	2,531	2,553	2,561	2,572
Unemployed	000's	84	83	80	94	73	76	71	65	58	73	72	82	73	69
Unemployed as % of Labour Force	%	3.3	3.2	3.1	3.7	2.8	3.0	2.7	2.5	2.2	2.8	2.8	3.1	2.8	2.6
Wages and Salaries	$ Million	734	792	804	798	806	808	825	823	843	849	854	859		
Industrial Employment(1)	1949=100	131.8	134.1	134.7	133.6	136.1	136.8	137.9	138.2	139.3	139.8	140.1	140.2		
Total Industrial Production *	1949=100	211.6	214.6	214.4	215.1	220.9	221.1	224.3	223.1	226.7	225.5	225.5	226.1		
Total Manufacturing		186.7	190.8	190.2	189.1	194.5	194.4	197.2	195.9	199.4	198.2	200.2	200.6		
Non-Durables		181.8	184.4	185.0	187.1	191.0	192.7	191.4	189.8	188.9	189.3	193.2	191.6		
Durables		192.6	198.3	196.3	191.4	198.6	196.4	203.9	203.1	211.8	208.6	208.5	211.1		
Mining		321.3	318.9	315.3	326.7	341.2	338.1	348.3	343.3	347.5	348.7	332.9	336.0		
Electric Power & Gas Utilities		407.4	403.7	416.1	426.9	421.8	434.1	429.6	437.4	441.8	435.8	443.0	433.5		
Primary Energy Demand (Annual Rate)	BKWH	41.01	39.79	41.08	41.81	41.29	41.72	42.13	42.86	43.46	42.52	42.14	43.06	42.59	43.67
ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED															
Domestic Exports *	$ Million	772.4	674.1	724.0	669.9	706.6	714.2	569.2	538.3	685.5	645.5	745.7	717.6		
Imports for Consumption *	$ Million	637.9	566.2	616.9	636.8	673.4	656.3	559.7	551.1	730.0	699.8	735.1	798.6		
Foreign Exchange Reserves *	US $ Million	2,534	2,576	2,625	2,687	2,743	2,674	2,668	2,649	2,554	2,567	2,499	2,480	2,492	2,598
Prices, Industrial Materials *	1935-39=100	257.3	259.9	258.8	258.0	258.5	256.2	256.7	255.3	256.3	256.6	258.5	260.4	259.5	262.8

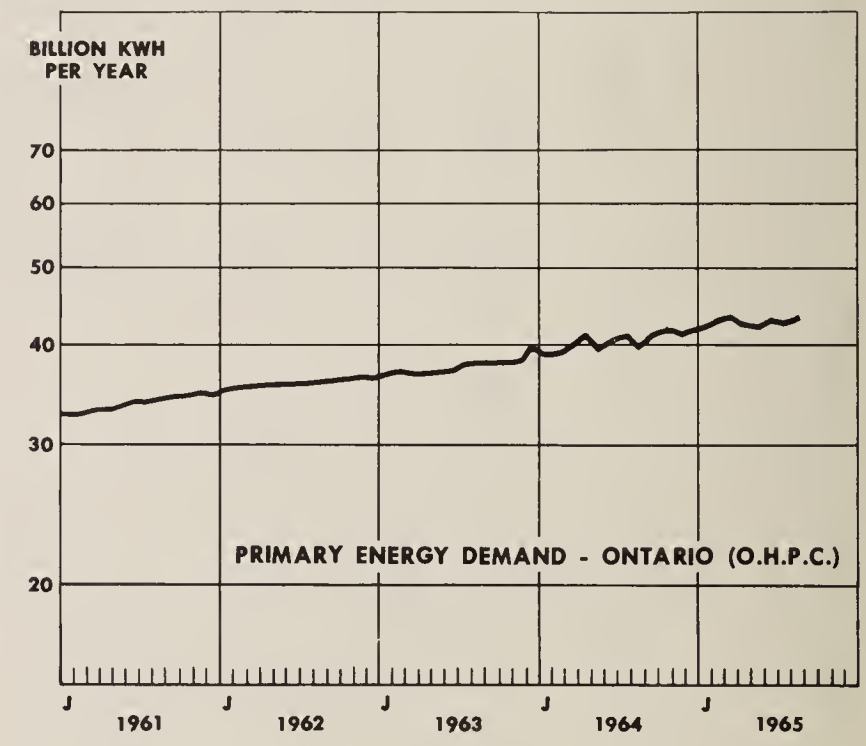
(1) Revised seasonally adjusted series.

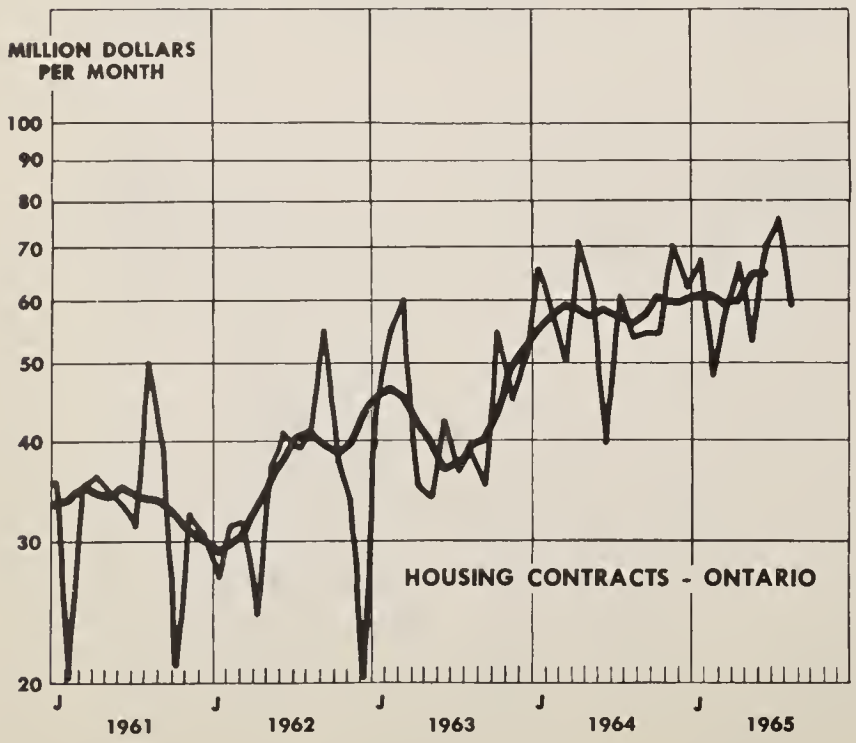
ECONOMIC INDICATORS — SEASONALLY ADJUSTED

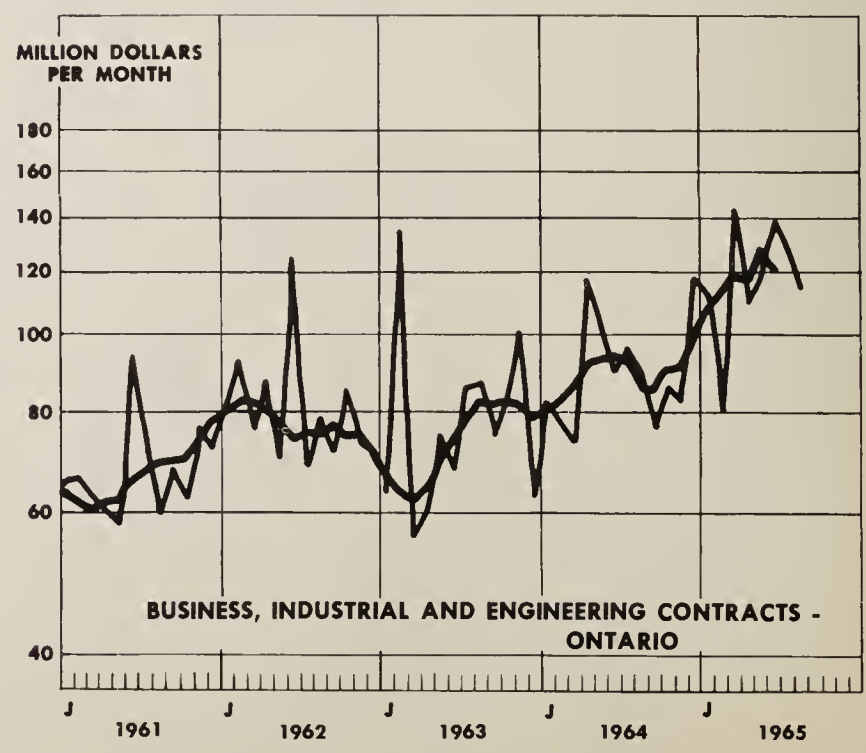




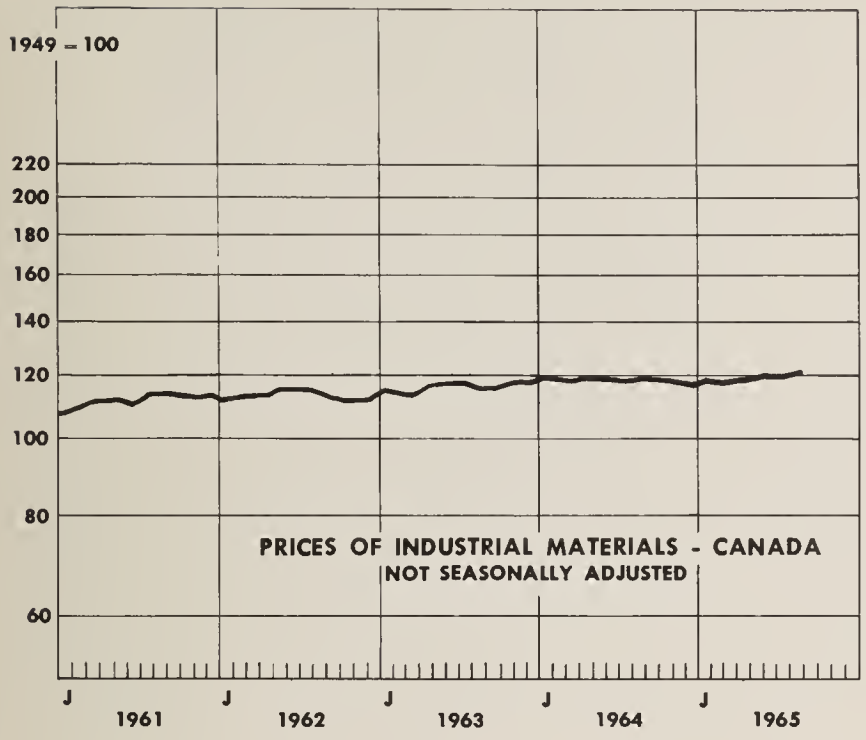


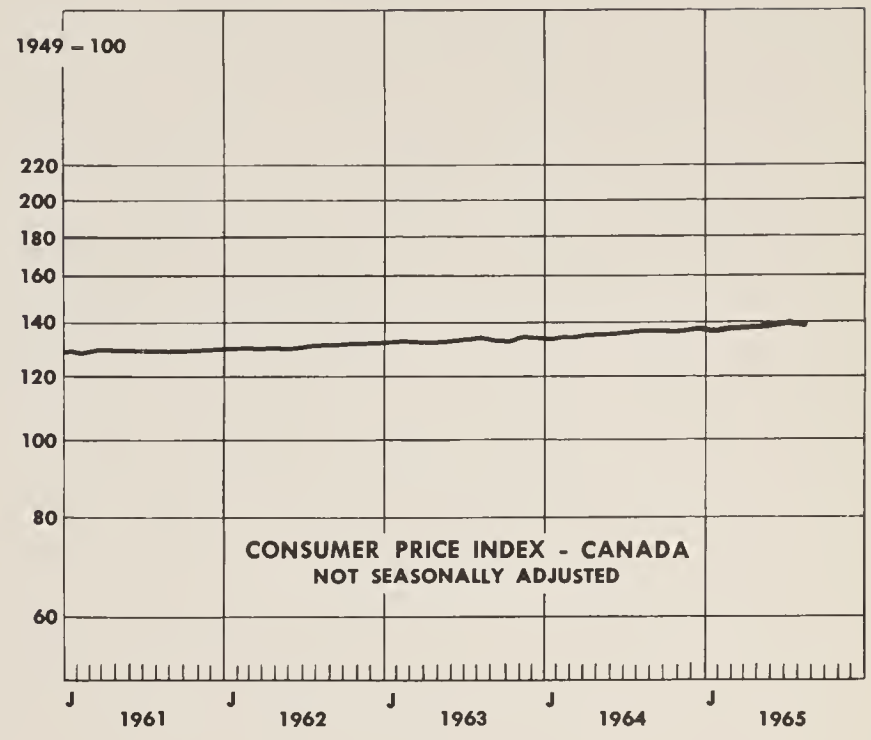


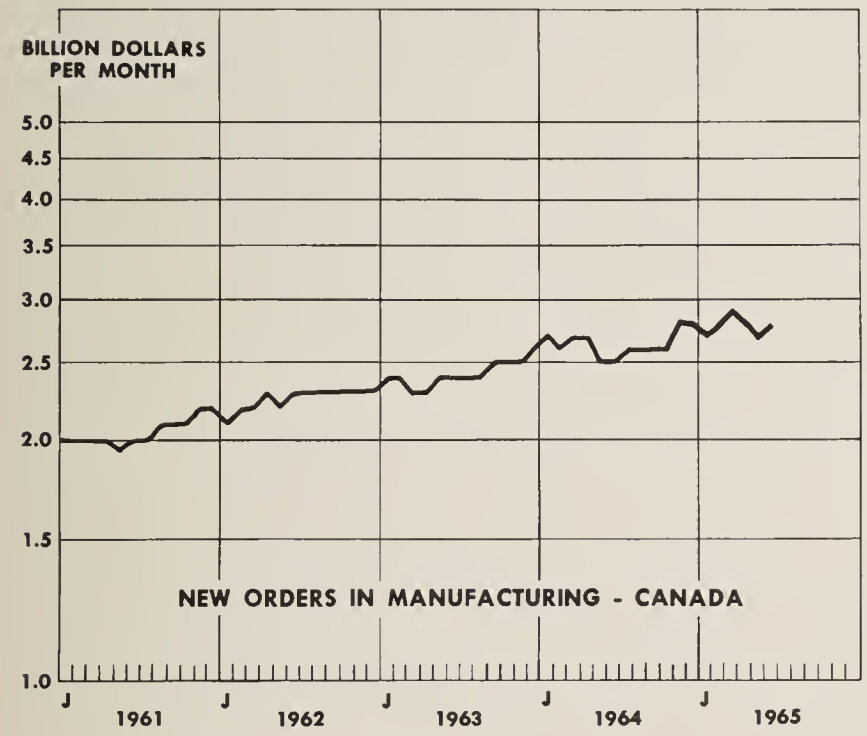


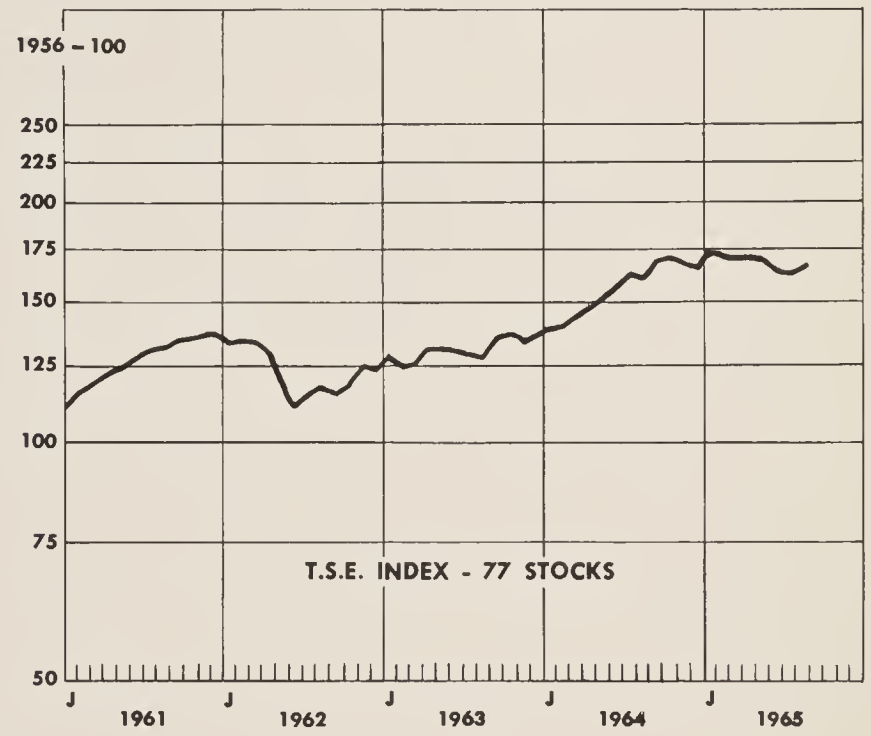


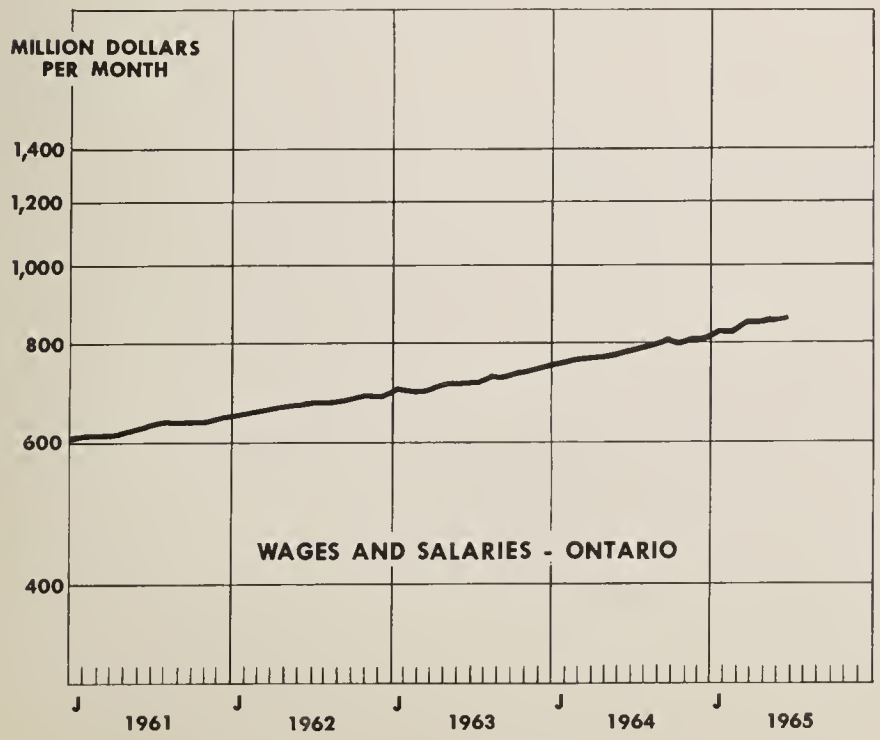
ECONOMIC INDICATORS — SEASONALLY ADJUSTED

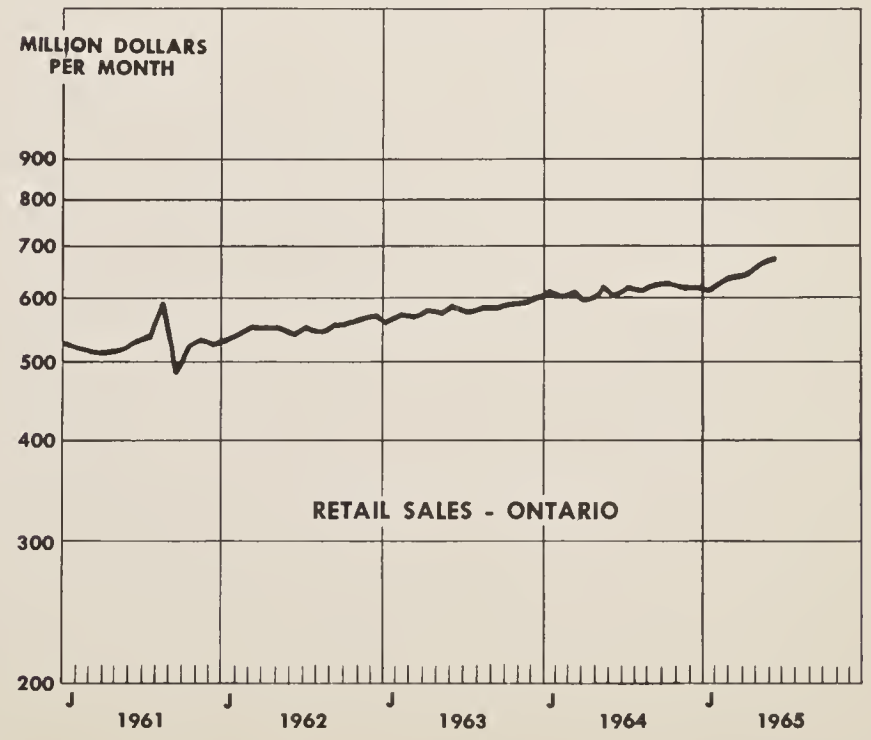












The Ontario Economic Review *is prepared and edited monthly in the Economics Branch of the Department of Economics and Development and is available free of charge. The review is intended to provide current information on economic activity in Ontario and to act as a forum for the results of research in the public service on matters affecting the Ontario economy. The signed articles reflect the opinions of their authors and do not necessarily represent the views of the Economics Branch. All correspondence should be directed to the Editor,* Ontario Economic Review, *Economics Branch, Department of Economics and Development, 950 Yonge St., Toronto 5.*

REFERENCE COPY

REFERENCE COPY

DEPARTMENT OF ECONOMICS & DEVELOPMENT
DEC 9 1965
LIBRARY

ONTARIO ECONOMIC REVIEW

OCTOBER 1965
VOL. 3
NO. 6

HA
747
0656
1965
VOL.3
NO.6

DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Hon. Stanley J. Randall, Minister

Stuart W. Clarkson, Deputy Minister

Ont. Ministry of Treasury, Economics & Intergovernmental Affairs
MAR 11 1981
81/762
LIBRARY

CONTENTS

The Ontario Economy 1

Educational Achievement Levels in Ontario,
Miss Helen L. Madge 3

Appendix: Compulsory School Attendance 9

Indicators and Charts 10

THE ONTARIO ECONOMY

The size of the Ontario labour force declined to 2,600 thousand in September from 2,641 thousand the previous month, as students left the labour force to begin another school year. Employment remained relatively high at 2,531 thousand; as a consequence the unemployment rate was a low 2.7 per cent.

Further evidence of continuing buoyancy in the economy came in the form of expanded construction activity, although housing contract awards declined in September due to higher mortgage costs. The value of business, industrial and engineering contract awards rose sharply to a record $155.7 million, an increase of 35.4 per cent in one month alone. The concentration of activity in the latter group is regarded as favourable since it will act to increase productive capacity over the months to come. At the same time concern over the possible price implications of increased construction activity has abated somewhat.

Production

Following several months of relative stagnation, the seasonally adjusted Canadian Index of Industrial Production (based on 1949 = 100) moved forward again in July, this time surpassing the record level of 226.7 established in March of this year. At 228.3, the July figure represents a growth of 1.0 per cent over the figure for the previous month and 8.3 per cent over July 1964. Most significant to the increase in July was manufacturing, increasing 1.3 per cent in one month's time. Non-durables rose 1.5 per cent, mainly due to large advances in beverages, textiles and meat products. The durables index increased 1.0 per cent, the most prominent components being motor vehicles and parts, averaging a 6.0 per cent increase. Moderating these significant gains were lesser gains in other durables and decreases of 1.2 and 2.8 per cent in wood products and electrical apparatus and supplies respectively. Of the other major components of the Index, mining rose 0.8 per cent over the previous month — copper led the advance with a 14.1 per cent gain while gold, down 8.8 per cent, showed the greatest decline — and electric power and gas utilities declined marginally by 0.4 per cent.

In September steel ingot production was 808,818 tons. While this was 6.3 per cent less than the August figure of 863,344 tons, it represented an increase of 10.0 per cent over September 1964. Pig iron production at 584,843 tons was down 7.8 per cent from August, but up 5.5 per cent over September 1964.

The seasonally unadjusted value of manufacturing shipments in Ontario, at $1,426 million in July, was 15.9 per cent higher than in July of last year.

Retail Sales

Seasonally adjusted retail sales in Ontario during August were valued at $669 million, up 8.1 per cent from a year earlier and down 0.4 per cent from the July level of $672 million. D.B.S. estimates, unadjusted for seasonal variation, place Ontario's retail sales in the January to August period at $5,028 million. This indicates an increase of 6.6 per cent over the same eight-month period in 1964. Particularly pronounced was the growth of motor vehicle sales — up 11.5 per cent. At $914 million, motor vehicle sales accounted for almost 18 per cent of the value of all Ontario retail sales in the January to August period. All other types of businesses also experienced increased sales. Among those retailers displaying significantly increased sales were variety stores (11.4 per cent), selected foods and beverages (11.1 per cent), jewellery (8.2 per cent) and men's clothing (7.9 per cent).

Over the same period the whole of Canada enjoyed a 6.1 per cent increase in retail sales. Sales totalled $13,709 million in the eight-month period of 1965. Ontario accounted for the largest share — 37.1 per cent, followed by Quebec (25.2), British Columbia (10.6), Alberta (8.2), Saskatchewan (5.8) and Manitoba (4.7). The Atlantic provinces collectively accounted for 8.4 per cent of retail sales. Displaying the greatest growth in Canada were variety retailers, up 13.1 per cent over the January to August period in 1964. This was followed by motor vehicle sales, which grew by 10.1 per cent. Lumber and building material sales had the smallest percentage increase — 1.9 per cent. None of the categories declined.

Prices

In October the Canadian Consumer Price Index (1949=100) was at a level of 139.3, down from the July record high of 139.5, and only 0.1 per cent above the September figure of 139.1. Over the last month the more notable components of the Index were food and clothing, the former declining 0.5 per cent and the latter rising 1.5 per cent. Transportation along with tobacco and alcohol did not change, while the other components rose only moderately. A comparison of October figures for 1964 and 1965 reveals that the greatest increases have taken place in transportation (5.2 per cent), health and personal care (4.1 per cent) and food (3.6 per cent). The increase in transportation is mainly attributable to regional increases in taxi rates and urban transit fares as well as higher gasoline prices. Limited production and poor weather account for most of the increase in food prices.

The Wholesale Price Index of 30 Industrial Materials, based on 1935-1939=100, rose to 261.6 in October, an increase of 0.5 per cent over the past month. The most recent data available show that there has been a decrease in the price of steel scrap, raw sugar, hogs, tin and linseed oil, and an increase in the price of beef hides, raw wool and raw cotton.

The wholesale index for Canadian Farm Products, at 237.2 in October, was 2.2 per cent higher than September. This was made up of a 3.4 per cent increase in the price of field products and 0.2 per cent increase in animal product prices.

Finance

Though the total supply of money continued to expand, reaching an all-time high of over $19.5 billion by the end of September, the supply of loanable funds in the Canadian money market was still somewhat limited. Reflecting this condition, the day-to-day loan rate was generally quoted at around four per cent during the period.

The volume and value of trading on Canadian bond markets was comparatively light and prices of outstanding issues generally tended to drift irregularly lower. On average, however, price changes were confined to fractions. Highlighting the month's otherwise dull character was the floatation of a few sizeable new issues. Prominent amongst these was a new $50 million 5½ per cent Province of Ontario 20-year bond issue that was priced to yield 5.60 per cent.

New Canadian bond financings for the first nine months of 1965 totalled some $3.18 billion, an increase of 25.3 per cent from last year's comparable total of $2.54 billion. Representing a good portion of this increase is the increase in new corporate bond financings; so far this year, at $1.14 billion, they are some 76.0 per cent higher than last year's value of $0.65 billion.

Prices of quality industrial equities throughout most sectors of the Canadian stock exchanges generally tended to improve during the first half of September, but thereafter were subjected to modest profit taking pressures. The Toronto Stock Exchange Industrial Index, after appreciating to a level of 169.52, subsequently declined to close the month at 167.52 – an overall increase nevertheless of 2.14 points on Index over the month.

Canada's foreign exchange reserves increased by $16.1 million during September and thus closed the month at a level of US$2,614.1 million. These reserves are held by the Bank of Canada, the Finance Ministry and the Exchange Fund Account and are used to defend the Canadian dollar against wide fluctuations in exchange markets.

The value of the Canadian dollar in terms of U.S. funds remained at a fairly constant level throughout September; fluctuations were confined to a range of 0.10 cents. The dollar closed the month at a level of US 92.95 cents for a net decline of 0.02 cents over the month.

CANADIAN CONSUMER PRICE INDEX

(1949 = 100)

	October 1964	*July 1965*	*August 1965*	*September 1965*	*October 1965*
ALL ITEMS	135.6	139.5	139.4	139.1	139.3
Food	131.0	139.0	137.8	136.4	135.7
Housing	139.2	141.1	141.2	141.5	141.6
Clothing	120.7	121.1	120.7	121.4	123.2
Transportation	141.4	147.0	147.9	148.7	148.7
Health and personal care	170.0	175.4	175.8	176.0	177.0
Recreation and reading	151.1	154.6	154.6	154.0	154.2
Tobacco and alcohol	121.4	122.5	122.6	122.6	122.6

EDUCATIONAL ACHIEVEMENT LEVELS IN ONTARIO

Miss Helen L. Madge
Senior Economist, Economics Branch
ONTARIO DEPARTMENT OF ECONOMICS AND DEVELOPMENT

In the early years of Ontario, education was considered necessary for the reasonable functioning of a democratic political system. As our economic and social structure has increased in complexity, education and training have become important on economic grounds.

The first legislation in the province embodying the principles of the right to education for all was the *School Law Improvement Act* of 1871. Over the years improvements and additions to the legislation have been made to strengthen the enforcement mechanism of the compulsory features of the educational legislation and to increase the age limits under these regulations, as well as to increase the duration of the school year. Enforcement was a serious problem in the rural areas in the 19th century, but effective compulsory education has been in force in most parts of the province since 1919.[1]

The changes in legislation reflected the changing attitudes of the people toward the importance of education. While the compulsory features have not been changed in the past 45 years, public assistance for higher education has increased tremendously. Moreover, the local availability of higher levels of education has improved a great deal. These changes in the availability of higher education have taken place in spurts. Universal availability of secondary school facilities in all parts of the province became a goal in the period just prior to World War II and the continuation school was begun as a move to make this possible. Provincial grants for capital costs of schools and increased *per capita* grants toward current school costs have made possible the availability of a high standard of education over the entire province. As a result of the establishment of secondary school facilities in many of the smaller towns and villages across the province, there was a steady rise in the proportion of young people continuing to secondary school in this period. Enrolment in secondary schools increased from 23.9 per cent of the 15 to 19 year age group in 1922 to 34.4 per cent in 1937, and to 40.0 per cent by 1949.

The post-war period saw a complete change in the attitude toward education in Canada. In earlier times, education was considered a necessity to make a person a good citizen and to broaden his private life and interests. However, in the post-war period formal training and education have become an economic necessity. Public support moved from the secondary school to the university level. The expansion of university facilities, increased provincial assistance to both universities and students, and the commencement of many new universities and colleges in the province were the main features of the educational revolution of the 1950's.

In the sixties, this stress on education along with the dearth of employment opportunities for both the unskilled and new labour force entrants has brought tremendous increases in school and university attendance. By 1964 secondary school enrolments totalled 395,000 in Ontario, or 74 per cent of the 15 to 19 year age group. University enrolment rose to 12.8 per cent of the 18 to 21 year age group in the province, up from an average of about 4.5 per cent in the first half of this century and of just 7.2 per cent as recently as 1956. The rate of increase in the proportion of young people attending university will likely level off as opportunities for alternative training increase in the province. The limit at the present time seems to be the capacity of the universities.

The past two or three years have seen a new expansionary phase in education with an enormous expenditure on vocational and technical training facilities. The drying up of the flow of immigration from Europe in 1959 and 1960 made people aware that for technical workers we have been almost completely dependent on persons trained elsewhere. The phenomenon of relatively high levels of unemployment accompanied by scarcities of skilled personnel brought a growing awareness of the importance of education and strengthened the pressures to make an all out effort to provide technical training facilities.

Studies of types and length of training in technical fields have been made in only limited areas for a few specified occupations. Most persons trained in this country have attained their skill or technical competence through on-the-job training. In many fields the major part of the labour force with the

[1] See appendix: "Compulsory School Attendance", page 9.

required skills consists of immigrants with varying backgrounds which are difficult to assess on a statistical basis. In this country, therefore, there have not been any overall measurements of the achievement levels in other than the academic area. The apprenticeship and trades school training are not taken into account in the measures of educational achievement, so that there may be some underestimation of levels of education in the middle categories. The measures at the top and at the bottom of the achievement levels in the *Census of Canada* are probably quite reliable.

Table I shows the educational achievement levels of the Ontario non-school population for the years 1941, 1951, and 1961. The data are not completely comparable for the three years as the 1941 census counted population 10 years of age and over; 1951, 5 years and over; and 1961, 15 years and over. Unfortunately the 1951 data include some pre-school children in the group. These would naturally have less than five years elementary school education.

Senior matriculation and post-secondary education has shown the largest proportionate increase in the twenty year period 1941 to 1961. The proportion having one to four years of secondary school education also rose, although not so spectacularly. The increase in the level achieved was of course most marked in the younger groups in the population. For example, in 1961, 7.6 per cent of the 25 to 44 year age group had some university education, 6.3 per cent of the 45 to 64 year olds were in this educational category, whereas only 3.9 per cent of those over 65 had any university education. The statistics for the under 24's are slightly misleading, as an increasing proportion of these are still attending educational institutions; for example, in the 1964-65 school year, nearly 13 per cent of all the 18 to 21 year olds in the province were attending university.

The provinces are responsible for education and to a large extent the legislation and government assistance policies determine the educational level of the populace. However, in Ontario a large proportion of our population growth is the result of migration. During the past twenty years we have had a tremendous immigration of professional and highly skilled persons from Europe to supply the technical competence needed in so many areas of Canadian industry. These have added to our general educational level. At the same time we have had an increased immigration of virtually illiterate groups, and these also affect the structure of our populace. This may be part of the reason for the continuing fairly high proportion of the population which has less than five years elementary education. See Table II.

The levels of educational achievement in Ontario have varied not only over time, but also very substantially from one part of the province to another. Educational levels are, on the whole, lower in the rural areas than in the urban communities, but there are some rural areas with a fairly high

TABLE I
ONTARIO EDUCATIONAL ACHIEVEMENT
Population[1] Not Attending School

	Census Years		
	1961	*1951*	*1941*
		Number	
Not stated			19,487
Less than 5 years elementary	239,097	312,689	205,279
5 years or more elementary	1,471,078	1,378,881	1,273,735
1 - 4 years secondary	1,612,621	1,274,945	1,005,672
13 years schooling and over	572,656	364,906	229,286
TOTAL	3,895,452	3,331,421	2,733,459
		Percentage of Total	
Not stated			0.7
Less than 5 years elementary	6.1	9.4	7.5
5 years or more elementary	37.8	41.4	46.6
1 - 4 years secondary	41.4	38.3	36.8
13 years schooling and over	14.7	10.9	8.4
TOTAL	100.0	100.0	100.0

[1] 1961: 15 years of age and over;
1951: 5 years of age and over;
1941: 10 years of age and over;

Source: D.B.S., *Census of Canada* 1961: Bulletin 1.3-6;
1951: Volume I, Table 59;
1941: Volume I, Table 56.

proportion of the population which has high school education. The proportion with university education is low in nearly all of the rural areas. However, the persons with practically no formal education are scattered through the mining and logging areas, some of the marginal agricultural counties and some of the urban communities. The only rural agricultural area which has a higher than average proportion of persons with less than five years schooling is in Eastern Ontario – Glengarry, Lanark, Prescott and Russell counties.

TABLE II
EDUCATIONAL ACHIEVEMENT OF THE CANADIAN BORN AND IMMIGRANT POPULATION, CANADA, 1961

		Immigrant Population		
	Canadian Born Population	*Before 1931*	*1931-1945*	*1946-1961*
	Percentage of Total 15 Years Old and Over			
No schooling	1.2	4.0	1.8	1.3
Elementary				
1 - 4	6.6	11.2	6.0	7.0
5 +	34.3	45.7	31.8	34.9
Secondary				
1 - 2	24.3	17.3	19.2	17.5
3	10.5	5.7	8.8	8.4
4 - 5	16.7	11.8	20.9	21.5
Some university	3.5	2.5	5.8	5.1
University degree	2.9	1.8	5.9	4.3
TOTAL	100.0	100.0	100.0	100.0

Source: D.B.S., *Census of Canada,* 1961, Bulletin 7.1-10, page 32.

In 1961 6.2% of the total Ontario population[2] had some university education. Only two of the ten economic regions of the province showed a higher than average proportion in this category – the Metropolitan and Eastern Ontario regions. The lowest proportion was in Georgian Bay but Northeastern Ontario and Northwestern Ontario showed only slightly higher proportions of persons with some university education.

A larger than average proportion of university educated people in the Metropolitan and Eastern Ontario regions was evident in all age categories.[3] This may be the result of the types of industry and institutions in these two areas, but it may also be partially a result of the local availability of university education. In the Eastern region, the majority of the university-educated population are in the two counties of Carleton and Frontenac. The government at Ottawa in Carleton county attracts a large number of university graduates from across Canada. Moreover, there are three institutions of higher learning in the city of Ottawa, so that both the factor of demand for graduates and the availability of university education are present in this area. Frontenac county contains the city of Kingston which again is largely a city of institutions. The university, the Royal Military College, the penitentiary, and the Military Staff College all use a significant number of professional personnel, and the presence of the university permits easy access to higher education. The strictly rural counties of Glengarry, Lanark, Russell, and Dundas have very few university-educated people, as one would expect.

The Metropolitan region shows a fairly high level of university-educated population in all three western counties. In Halton, 5.4 per cent had a university degree in 1961, and an additional 4.2 per cent had some university education. In Peel, the percentages were 5.0 and 3.7, and in York 4.7 and 3.5. A fairly general spread of industry and institutional organizations along the lakeshore is reflected in these figures.

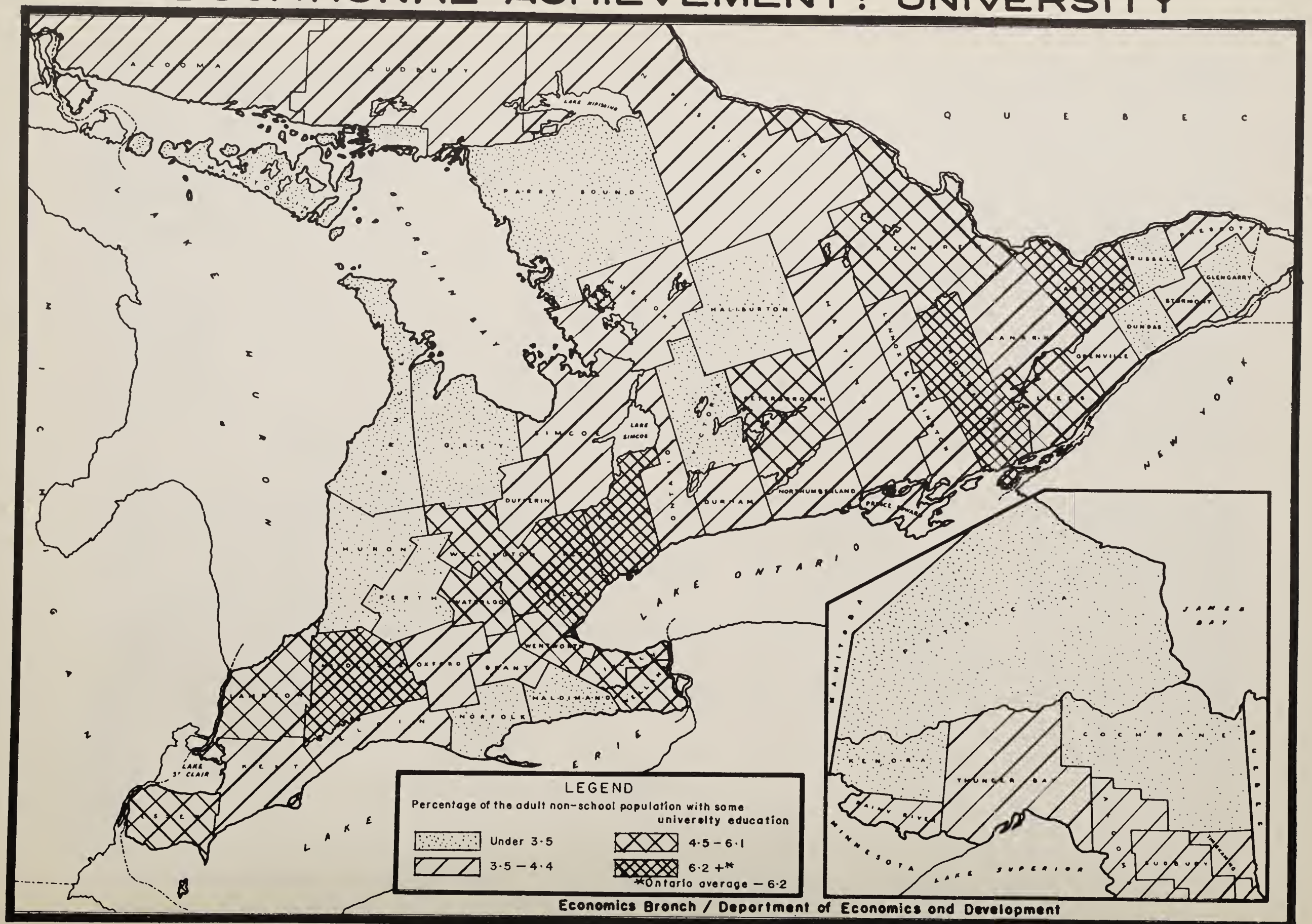
The largest proportion of the population with less than elementary education was in the Northwestern and Northeastern regions with 13.5 per cent and 10.8 per cent of the population. In the Northwestern region, the relatively large proportion of the population with very little elementary schooling was evident in all age categories. In Northeastern Ontario, the proportions were very high in the older age categories, but in the 20 to 24 age group, it was 2.5 per cent, the same as the provincial average, and in the 15 to 19 age category it was lower than the provincial average of 3.0 per cent. Midwestern Ontario had the smallest proportion in this low education category and this area also had fewer in this category in all age groups than did other regions in the province.

However, the Midwestern region had a larger proportion with five years or more elementary education than the average for the province for all age categories, and had a lower than average proportion with higher education. This area is long settled with well-established community facilities and with less population interchange than most other parts of Ontario. As a result, the population has for the most part completed public school or had some secondary school education.

Certain parts of the province which one would expect to have overall high levels of education have some strange pockets or groups with very little education. Thus in Metropolitan Toronto in the young working ages there is a larger than average

[2] Total population refers to population 15 years of age and over, not attending school.
[3] See Table III, page 8.

EDUCATIONAL ACHIEVEMENT: UNIVERSITY



LEGEND

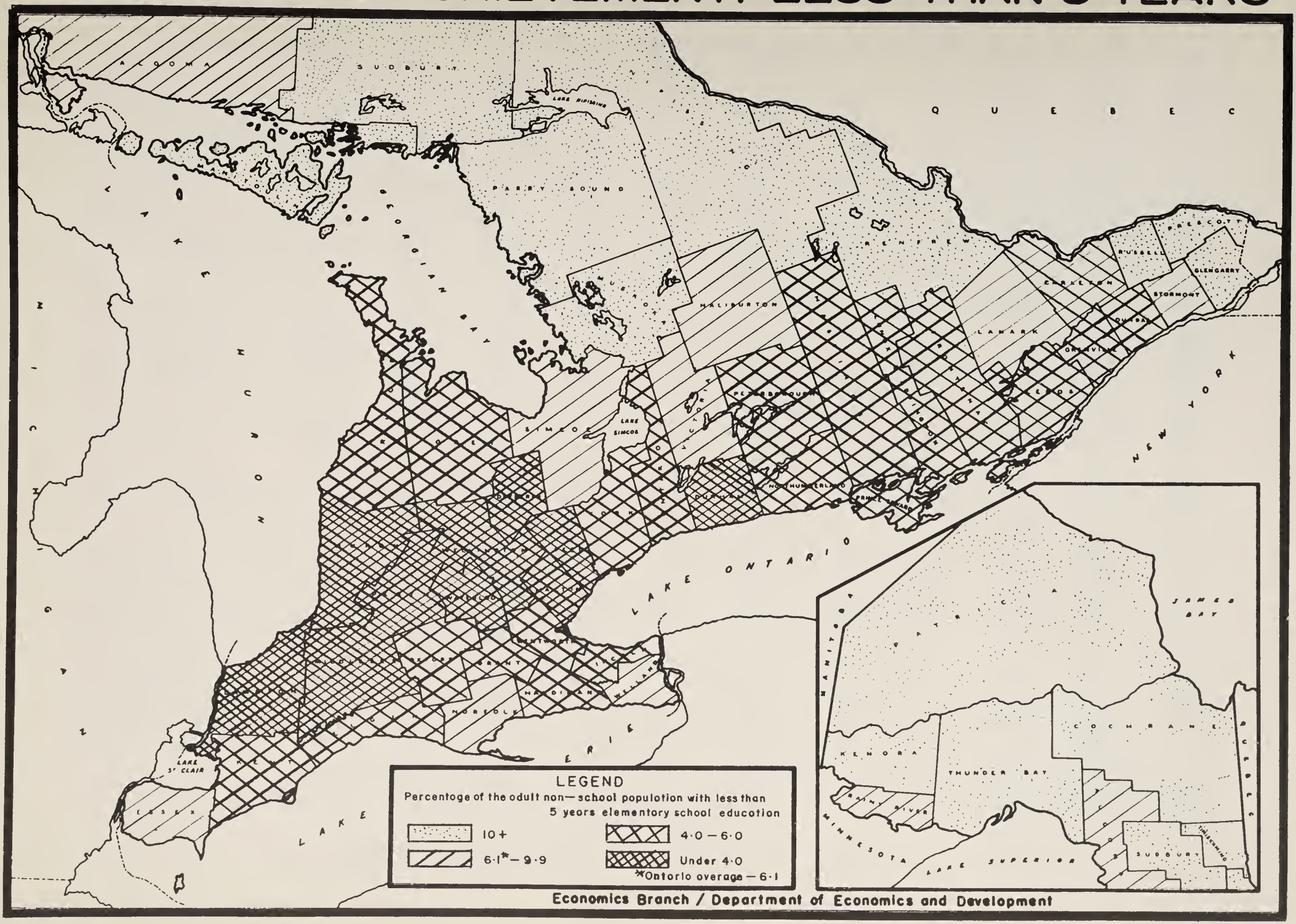
Percentage of the adult non-school population with some university education

- Under 3·5
- 3·5 – 4·4
- 4·5 – 6·1
- 6·2 +*

*Ontario average – 6·2

Economics Branch / Department of Economics and Development

EDUCATIONAL ACHIEVEMENT: LESS THAN 5 YEARS



LEGEND

Percentage of the adult non—school population with less than 5 years elementary school education

10+	4·0 — 6·0
6·1* — 9·9	Under 4·0

*Ontario average — 6·1

Economics Branch / Department of Economics and Development

TABLE III
ONTARIO EDUCATIONAL ACHIEVEMENT BY ECONOMIC REGIONS
Population Not Attending School, in Selected Age Groups (15 years and over)
June 1, 1961

	Eastern Ontario	Lake Ontario	Metro-politan	Niagara	Lake Erie	Lake St. Clair	Midwestern Ontario	Georgian Bay	North-eastern Ontario	Lakehead Northwestern Ontario	Grand Total Ontario
					Percentage of Total						
Ages 15-19											
Less than 5 years elementary	4.5	2.2	2.5	1.6	1.6	1.6	1.3	5.6	2.5	12.7	3.0
5 years or more elementary	27.3	28.6	24.3	28.5	28.4	26.7	31.9	30.2	38.3	31.0	28.4
1, 2 or 3 years secondary	49.6	54.3	55.5	54.5	50.6	51.1	51.6	52.2	47.5	45.0	52.2
4 or 5 years secondary	18.0	14.6	17.3	15.0	19.1	20.1	14.8	11.8	11.4	11.1	16.0
Some university	0.6	0.3	0.4	0.4	0.3	0.5	0.3	0.2	0.3	0.2	0.4
University degree	—	—	—	—	—	—	0.1	—	—	—	—
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Ages 20-24											
Less than 5 years elementary	2.2	1.2	3.2	1.8	1.3	1.3	1.0	3.1	2.5	7.9	2.5
5 years or more elementary	21.6	21.9	21.7	22.8	21.6	20.0	26.4	24.9	30.8	25.3	23.1
1, 2 or 3 years secondary	41.8	47.5	40.7	44.8	42.8	41.8	42.8	46.8	41.3	42.2	42.4
4 or 5 years secondary	29.2	26.8	28.9	26.5	30.4	32.5	26.2	22.8	22.6	21.4	27.6
Some university	3.1	1.7	3.5	2.8	2.5	3.0	2.4	1.5	2.1	2.4	2.8
University degree	2.1	0.9	2.0	1.3	1.4	1.4	1.2	0.9	0.7	0.8	1.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Ages 25-44											
Less than 5 years elementary	3.2	2.0	3.7	2.9	2.1	2.3	1.4	3.1	5.9	8.1	3.3
5 years or more elementary	29.6	35.4	27.7	34.1	32.4	33.2	38.1	38.9	41.9	35.6	32.6
1, 2 or 3 years secondary	32.8	36.9	34.0	37.1	35.9	35.5	35.5	36.0	31.1	35.3	34.5
4 or 5 years secondary	23.9	20.6	24.9	20.0	23.1	22.3	19.3	17.7	16.3	16.3	22.0
Some university	3.9	2.3	4.1	2.7	2.8	3.2	2.5	2.1	2.4	2.4	3.3
University degree	6.6	2.8	5.6	3.2	3.7	3.5	3.2	2.2	2.4	2.3	4.3
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Ages 45-64											
Less than 5 years elementary	8.3	5.9	6.8	7.3	5.1	7.6	4.0	7.5	16.9	17.5	7.8
5 years or more elementary	40.1	49.8	39.1	46.8	46.1	49.0	54.1	53.5	47.9	45.1	44.5
1, 2 or 3 years secondary	24.7	25.6	26.9	26.9	28.0	24.5	24.7	23.3	20.0	23.0	25.6
4 or 5 years secondary	18.3	14.4	19.1	13.8	15.4	13.8	12.3	12.1	11.0	10.5	15.8
Some university	3.4	2.0	3.3	2.5	2.4	2.4	2.2	1.8	2.0	2.0	2.7
University degree	5.2	2.3	4.8	2.7	3.0	2.7	2.7	1.8	2.2	1.9	3.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Ages 65 and over											
Less than 5 years elementary	17.9	13.3	12.4	13.6	9.5	16.3	9.8	16.3	34.7	30.6	15.1
5 years or more elementary	50.3	59.9	51.9	56.8	58.6	56.9	66.4	61.0	46.7	48.0	55.0
1, 2 or 3 years secondary	14.9	15.3	17.8	17.4	19.3	15.8	14.2	13.7	10.6	13.2	16.2
4 or 5 years secondary	12.0	8.6	12.8	8.8	9.3	8.1	6.8	6.6	5.9	6.1	9.9
Some university	2.2	1.4	2.2	1.7	1.5	1.5	1.3	1.1	1.0	1.2	1.7
University degree	2.7	1.5	2.9	1.7	1.8	1.4	1.5	1.3	1.1	0.9	2.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total ages 15 and over											
Less than 5 years elementary	6.6	4.9	5.5	5.5	4.0	5.8	3.4	6.9	10.8	13.5	6.1
5 years or more elementary	34.5	42.2	33.2	39.7	39.3	40.1	45.8	45.8	42.5	38.5	37.8
1, 2 or 3 years secondary	29.8	31.7	31.4	32.8	32.3	30.4	30.6	29.8	28.4	30.4	31.0
4 or 5 years secondary	20.9	17.1	21.9	17.0	19.2	18.5	15.7	14.1	14.4	13.8	18.9
Some university	3.3	1.9	3.5	2.4	2.4	2.6	2.0	1.7	2.0	2.0	2.8
University degree	4.9	2.2	4.5	2.6	2.8	2.6	2.5	1.7	1.9	1.8	3.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: D.B.S., *Census of Canada,* 1961, Bulletin 1:3-6; Counties — Special Tabulation.

proportion of persons with less than five years elementary schooling. The influx of large numbers of persons from southern Europe and from some of the outlying regions in Canada to work in the construction and service trades has brought the Toronto area an unusually large number of people with little or no formal education.

Ontario has had compulsory education legislation almost since the province was established. In spite of this, we have a fairly large proportion of persons with very little education. In some areas this is because of the difficulties of enforcing the compulsory features of the education acts, and in other areas it is because of the numbers of migrants with poor educational backgrounds. If we are to ensure a high level of education, we must improve the availability of education in the remote areas of our own province. We must also make sure that the persons coming here from other countries have at least the minimum education that we consider essential for good citizenship and economic independence. It is apparent that some more-comprehensive program of basic education for adults is essential in those areas where changing economic conditions are making the manual and unskilled workers redundant.

COMPULSORY SCHOOL ATTENDANCE

The following is an excerpt from the Ontario Royal Commission on Education, Report of the Royal Commission on Education in Ontario, *Printer to the King, Toronto, 1950; chapter 3, pages 41-43.*

"When schools were first established and maintained in Upper Canada, in part at least at public expense, attendance of pupils was voluntary, as in other countries. Once the principle of free schools had been accepted and had become generally effective, however, the idea of compulsory attendance at school came to the fore. It seems to have been based on a number of beliefs, constituting an unusual mixture of economic and humanitarian motives that every child had a right to a common school education; that, in return for his financial support, the taxpayer might justly require that every child be educated; and that it was the duty of the parent to educate his child. As a result of these convictions, the School Law Improvement Act of 1871 included the following modest provision for compulsory attendance:

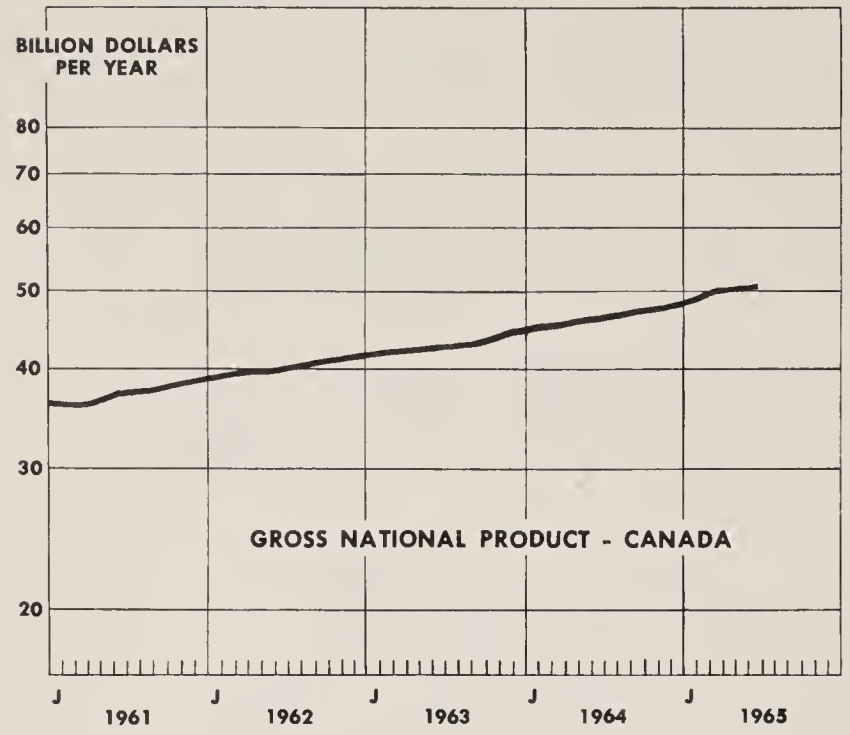
> 'Every child, from the age of seven to twelve years inclusive, shall have the right to attend some school, or be otherwise educated for four months in each year; and any parent or guardian, who does not provide that each child between the ages aforesaid under his care shall attend some school, to be otherwise educated, as thus of right declared, shall be subject to the penalties hereinafter provided. . . .'

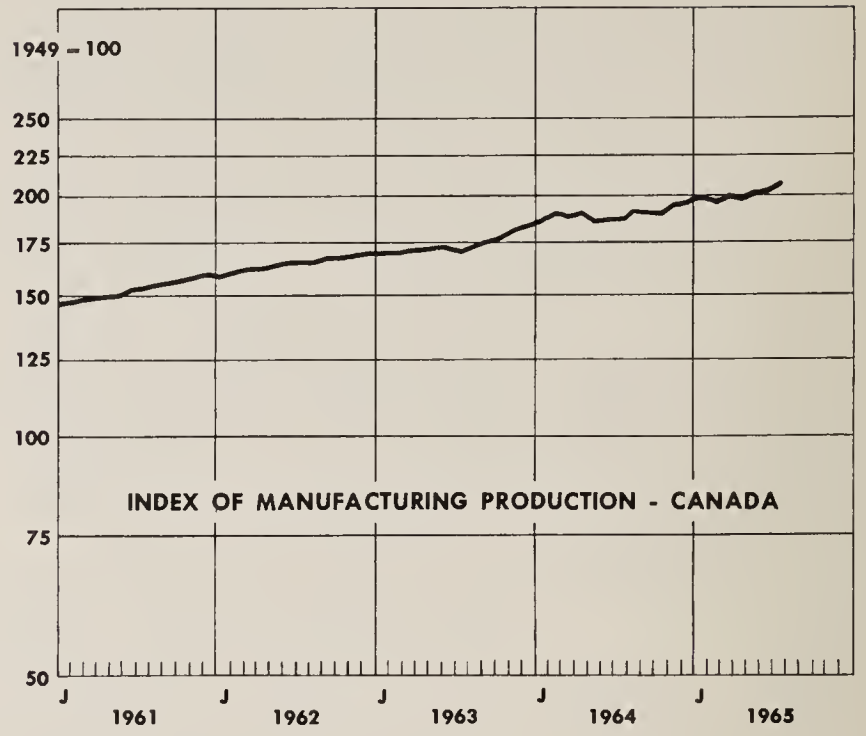
"It was not until 1881, however, that municipal assessors were required to register all children between the ages of 7 and 13, and school boards empowered to appoint officers to enforce compulsory attendance. Somewhat later, the length of the period of compulsory school attendance was extended to 100 days each year. But school boards failed to measure up to their responsibility; and even as late as 1886, 23 per cent of the rural population within the compulsory school attendance age attended less than the required 100 days per year. To remedy this, the Truancy Act of 1891 was enacted. Full-time attendance for the school term was required of all children between the ages of 8 and 14; exceptions were allowed in cases of sickness or other unavoidable causes, or where the child was excused from attendance by the school principal or a justice of the peace, or where he had passed the high school entrance examination; and penalties were provided, applying to parents and guardians who refused to comply, and to any person who, during the school term, employed a child under the age of 14. Although this legislation brought about a marked improvement in school attendance, the Act was not fully enforced, particularly in rural areas. Hence, in 1919, the School Attendance Act and the Adolescent School Attendance Act were enacted. They required the appointment of local attendance officers, whose work was to be supervised and co-ordinated by a provincial attendance officer. The general provisions of this legislation are still in effect.

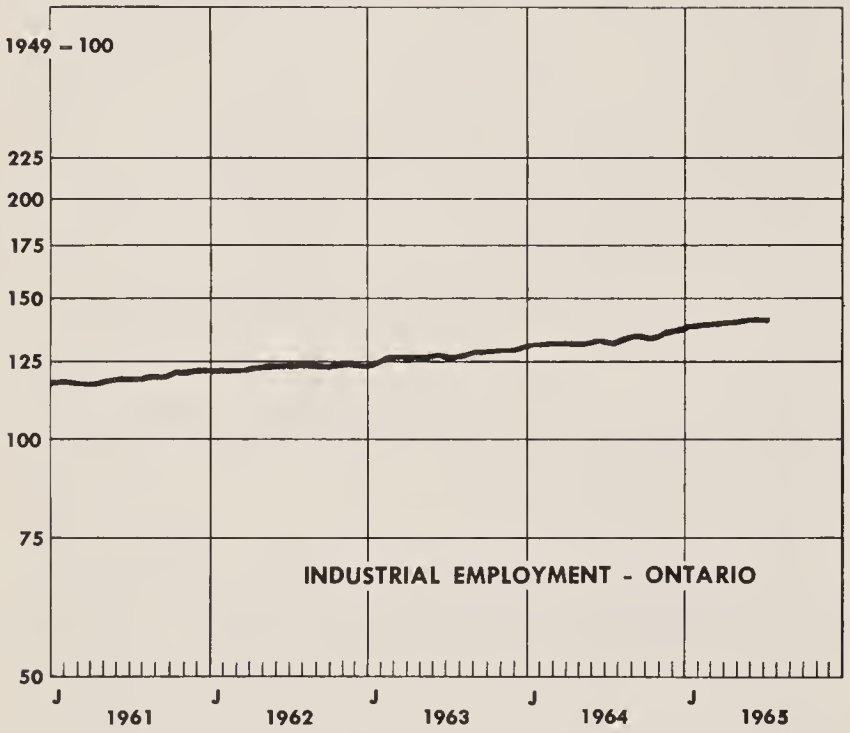
"Today, The School Attendance Act requires that every child between the ages of 8 and 14 attend school for the full term, and responsibility for such attendance is placed on the parent or guardian. General exemptions are provided in cases of sickness or other unavoidable causes, excessive distance from school, insufficient accommodation, and where children are receiving efficient instruction elsewhere, or have passed examinations equivalent to university matriculation or entrance to normal school. Every child between the ages of 5 and 8 who has been registered as a pupil must attend at least during the term in which he is enrolled. Provision is made that a child under the age of 14 be not employed during school hours, except in case of urgent necessity as certified by a school attendance officer, and then for not longer than six weeks during the school term.

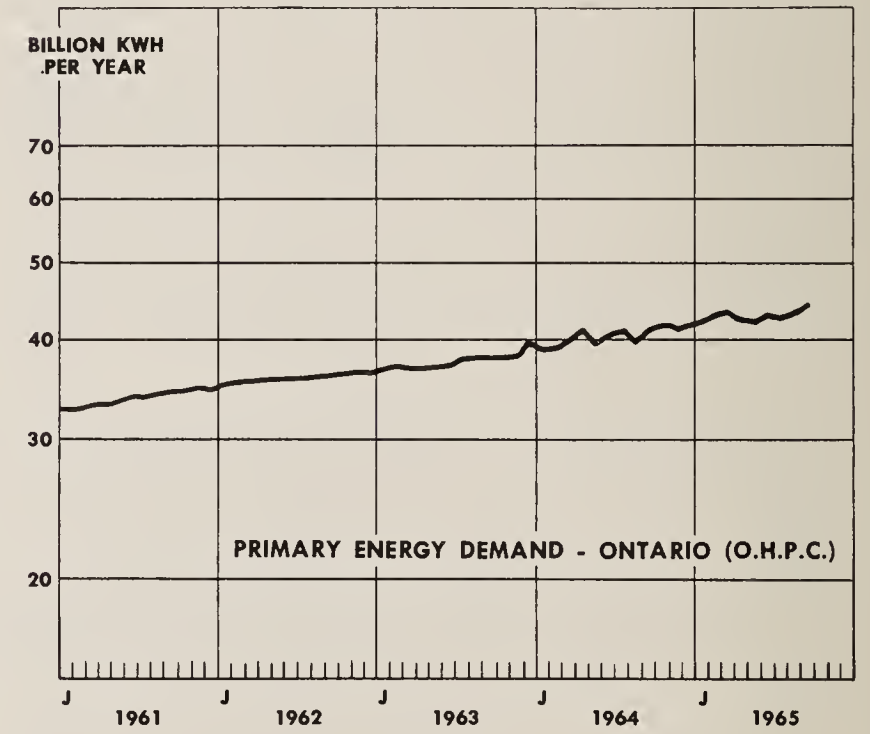
"The present Adolescent School Attendance Act requires the full-time attendance of every adolescent between 14 and 16 years of age; and, in municipalities where part-time courses are provided, it requires part-time attendance, for at least 320 hours per year, of those between 16 and 18 years of age. Unfortunately, an extensive and complicated set of exemptions and exceptions largely nullifies these requirements. . . ."

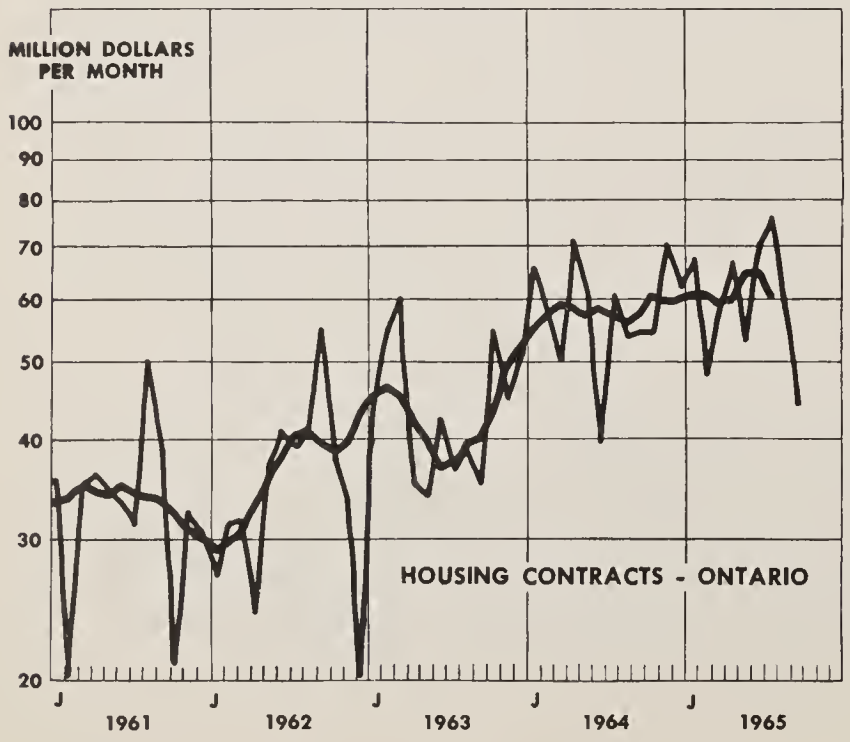
ECONOMIC INDICATORS—SEASONALLY ADJUSTED

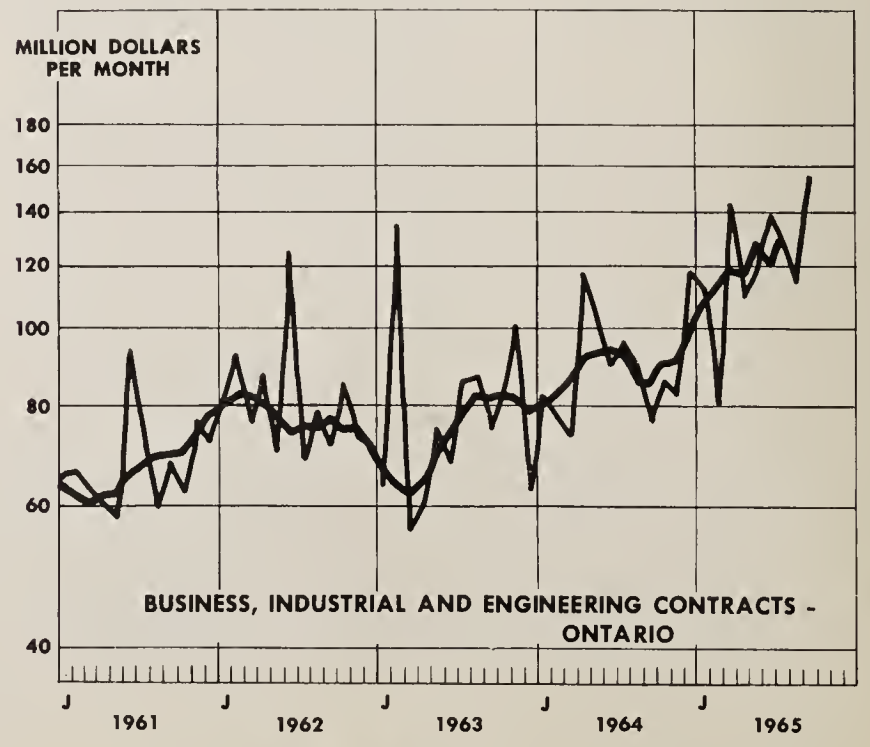




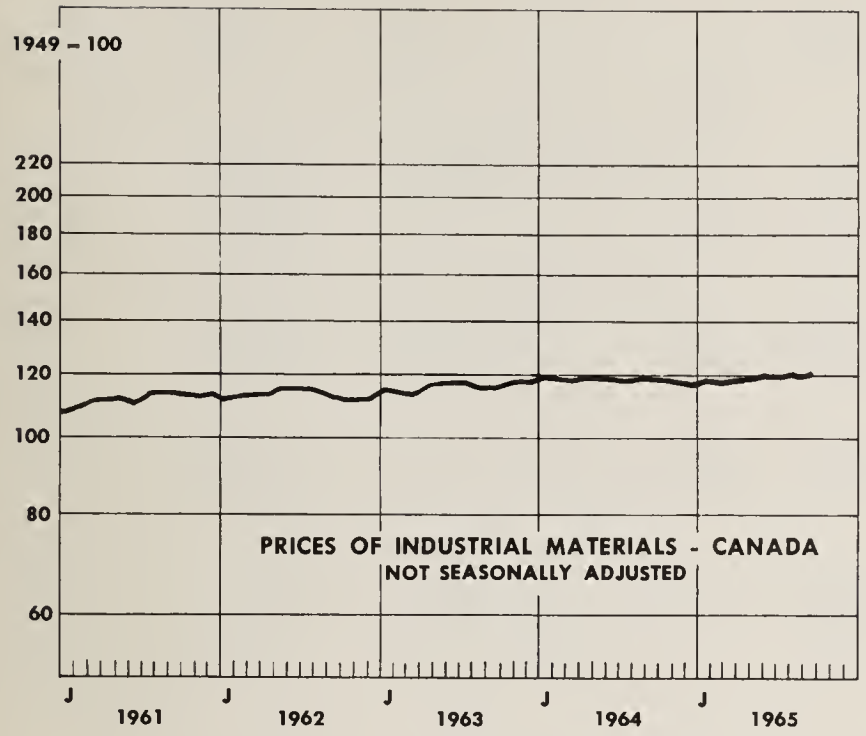


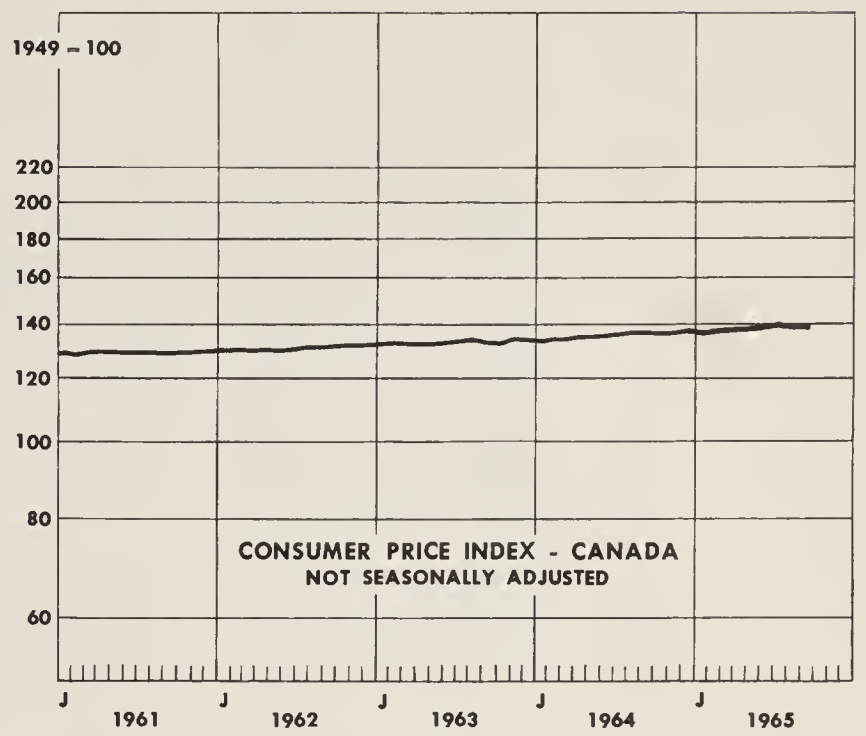


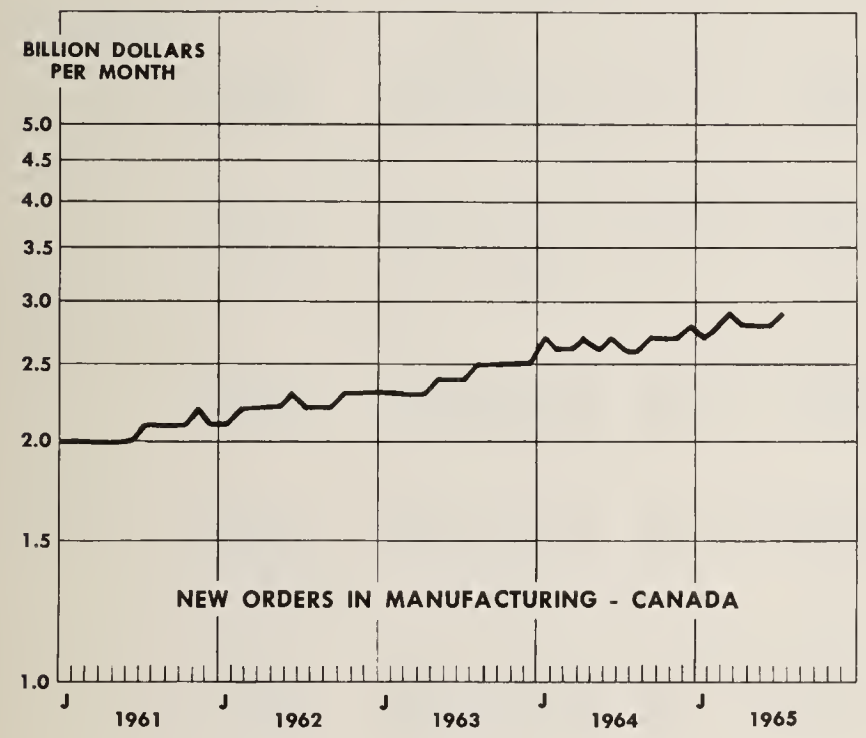


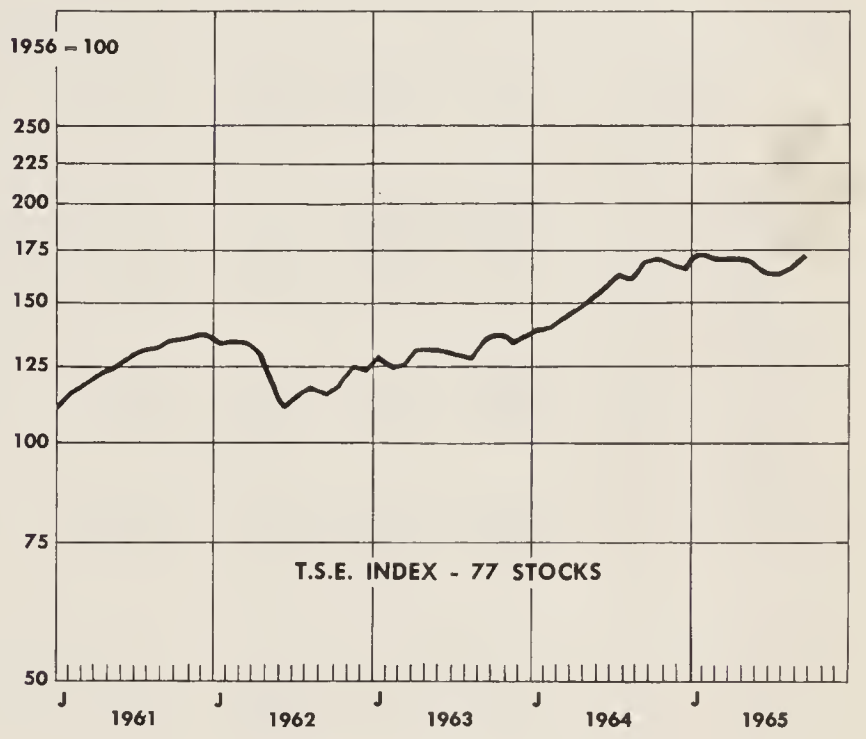


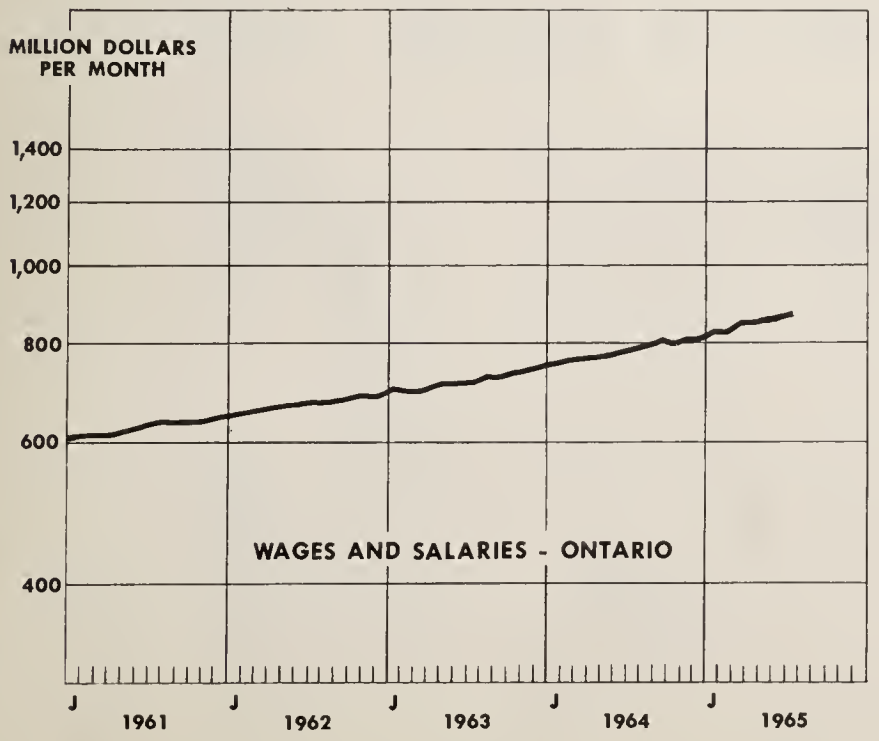
ECONOMIC INDICATORS — SEASONALLY ADJUSTED

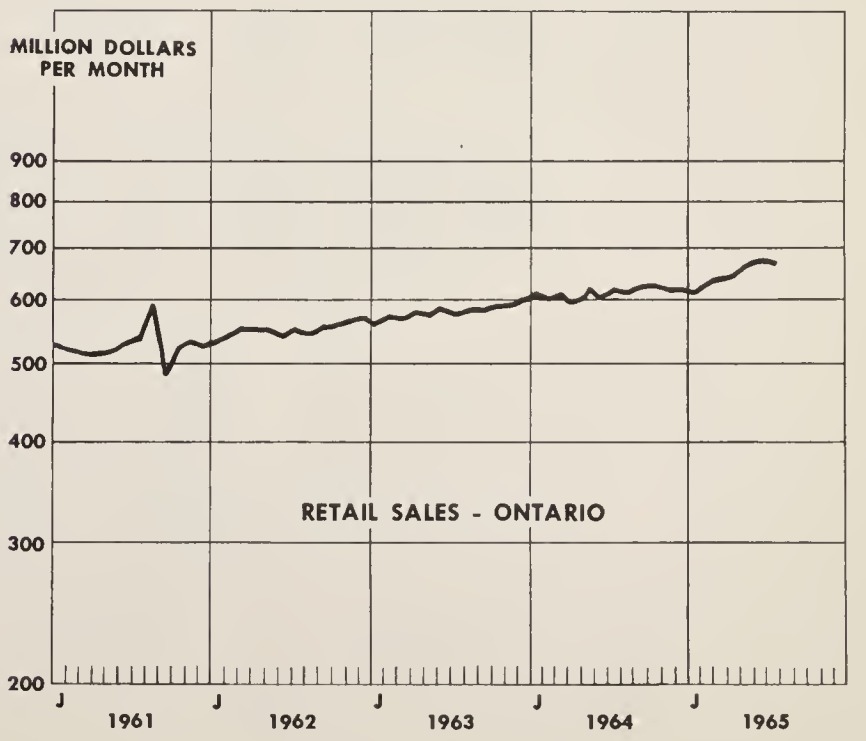












ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

(* Figures for Canada)

		1964					1965								
LEADING INDICATORS		August	September	October	November	December	January	February	March	April	May	June	July	August	September
Average Weekly Hours Worked in Manufacturing	(No.)	41.2	41.2	41.4	40.8	41.1	41.0	40.3	41.7	41.5	41.0	41.3			
New Dwelling Unit Starts	(No.)	4,509	4,469	5,209	6,183	5,138	4,107	5,815	5,353	3,848	5,010	5,806	4,770	7,377	
Business Failures	(No.)	83	77	93	59	78	90	77	130	67	87	65	62	83	79
Business Failures - Liabilities	$ Million	3.0	6.3	6.9	3.1	2.1	3.4	10.3	8.9	4.0	5.3	4.6	4.0	20.7	9.5
New Orders in Manufacturing (i)*	$ Million	2,631	2,696	2,689	2,721	2,780	2,684	2,793	2,870	2,827	2,834	2,829	2,891		
Housing Contracts	$ Million	54.2	54.7	54.4	70.8	62.5	67.9	48.1	57.9	67.3	53.7	70.9	76.2	59.1	44.3
Business, Industrial and Engineering Contracts	$ Million	90.0	76.9	86.1	83.1	117.9	113.5	80.3	143.9	109.3	117.9	135.9	127.8	115.0	155.7
Money Supply*	$ Million	17,448	17,517	17,391	17,502	17,610	17,855	18,047	18,271	18,575	18,758	18,791	19,229	19,619	19,672
T.S.E. Index - 77 Stocks	1956=100	160.4	169.1	169.7	168.5	165.6	170.9	172.8	170.7	171.1	169.5	163.0	163.9	166.8	171.4
COINCIDENTAL AND LAGGING INDICATORS															
New Dwelling Unit Completions	(No.)	3,714	4,287	3,806	3,432	3,236	3,667	3,727	8,392	7,115	4,518	4,019	2,153	4,075	
Average Hourly Earnings in Manufacturing	$	2.16	2.16	2.14	2.14	2.15	2.19	2.20	2.23	2.23	2.22	2.23			
Gross National Product*	$ Million	- - - -	47,392	- - - - - - - - - -		48,016	- - - - - - - - - -		-50,040	- - - - - - - - -		-50,948			
Cheques Cashed in Clearing Centres	$ Million	3,656	3,887	3,820	3,678	3,765	3,773	3,869	3,981	4,127	4,211	4,097	4,184		
Retail Trade	$ Million	619	628	630	625	624	617	631	641	659	672	679	672	669	
Labour Force	000's	2,571	2,564	2,561	2,564	2,565	2,614	2,590	2,598	2,597	2,603	2,635	2,634	2,641	2,600
Employed	000's	2,488	2,484	2,467	2,491	2,489	2,543	2,525	2,540	2,524	2,531	2,553	2,561	2,572	2,531
Unemployed	000's	83	80	94	73	76	71	65	58	73	72	82	73	69	69
Unemployed as % of Labour Force	%	3.2	3.1	3.7	2.8	3.0	2.7	2.5	2.2	2.8	2.8	3.1	2.8	2.6	2.7
Wages and Salaries	$ Million	792	804	798	806	808	825	823	843	849	854	861	868		
Industrial Employment	1949=100	134.1	134.7	133.6	136.1	136.8	137.9	138.2	139.3	139.8	140.1	140.2	140.4		
Total Industrial Production*	1949=100	214.6	214.4	215.1	220.9	221.1	224.3	223.1	226.7	225.5	225.4	226.0	228.3		
Total Manufacturing		190.8	190.2	189.1	194.5	194.4	197.2	195.9	199.4	198.2	200.3	200.3	202.9		
Non-Durables		184.4	185.0	187.1	191.0	192.7	191.4	189.8	188.9	189.3	193.2	190.9	193.7		
Durables		198.3	196.3	191.4	198.6	196.4	203.9	203.1	211.8	208.6	208.5	211.4	213.6		
Mining		318.9	315.3	326.7	341.2	338.1	348.3	343.3	347.5	348.7	332.7	336.9	339.5		
Electric Power & Gas Utilities		403.7	416.1	426.9	421.8	434.1	429.6	437.4	441.8	435.8	431.8	433.5	431.7		
Primary Energy Demand (Annual Rate)	BKWH	39.79	41.08	41.81	41.29	41.72	42.13	42.86	43.46	42.52	42.14	43.06	42.59	43.67	44.51
ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED															
Domestic Exports*	$ Million	674.1	724.0	669.9	706.5	714.1	569.2	538.3	685.5	645.5	745.7	717.6	770.4		
Imports for Consumption*	$ Million	566.2	616.3	636.8	673.2	656.1	559.7	551.1	730.0	698.4	737.1	798.6	732.4		
Foreign Exchange Reserves*	US $ Million	2,576	2,625	2,687	2,743	2,674	2,668	2,649	2,554	2,567	2,499	2,480	2,492	2,598	2,614
Prices, Industrial Materials*	1935-39=100	259.9	258.8	258.0	258.5	256.2	256.7	255.3	256.3	256.6	258.5	260.4	259.5	260.9	262.4

(i) Revised Series

The Ontario Economic Review *is prepared and edited monthly in the Economics Branch of the Department of Economics and Development and is available free of charge. The review is intended to provide current information on economic activity in Ontario and to act as a forum for the results of research in the public service on matters affecting the Ontario economy. The signed articles reflect the opinions of their authors and do not necessarily represent the views of the Economics Branch. All correspondence should be directed to the Editor,* Ontario Economic Review, *Economics Branch, Department of Economics and Development, 950 Yonge St., Toronto 5.*

REFERENCE COPY

REFERENCE COPY

JAN 5 1966

ONTARIO ECONOMIC REVIEW

NOVEMBER 1965
VOL. 3
NO. 7

HA
747
0656
1965
VOL.3
NO.7

DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Hon. Stanley J. Randall, Minister

Stuart W. Clarkson, Deputy Minister

Ont. Ministry of Treasury, Economics & Intergovernmental Affairs
MAR 11 1981
81/763
LIBRARY

CONTENTS

The Ontario Economy 1

Concentration and Competition in Ontario's Fluid Milk Industry, *Duncan Allan* 3

Indicators and Charts 15

The Ontario Economic Review *is prepared and edited monthly in the Economics Branch of the Department of Economics and Development and is available free of charge. The review is intended to provide current information on economic activity in Ontario and to act as a forum for the results of research in the public service on matters affecting the Ontario economy. The signed articles reflect the opinions of their authors and do not necessarily represent the views of the Economics Branch. All correspondence should be directed to the Editor,* Ontario Economic Review, *Economics Branch, Department of Economics and Development, 950 Yonge St., Toronto 5.*

THE ONTARIO ECONOMY

As the Ontario economy went through its fifty-eighth month of expansion, there appeared to be no significant deterrent to continued expansion on the horizon. Construction contract awards, one of the significant indicators in Ontario, were recorded at $177.2 million in November, 1.8 per cent higher than a year ago. Seasonally-adjusted data for October revealed a rise in housing contracts, and a significant decline in business, industrial and engineering contracts from the extremely high September level.

The seasonally-adjusted rate of unemployment declined from 2.7 per cent in September to 1.8 per cent in October, the lowest rate in Ontario since 1953. At the same time Canada's rate dropped to 3.2 per cent of the labour force.

Production

The expansion of industrial production continued in August, with the seasonally-adjusted Canadian Index of Industrial Production rising 1.3 per cent over the previous month's figure. At 231.4 (based on 1949 = 100), the August figure was 7.8 per cent higher than it had been one year ago.

The major contributors to this increase were mining and electric power and gas utilities, the former rising 3.2 per cent and the latter 4.2 per cent over the last month. Fuels led the way in the mining index, recording a one-month gain of 9.4 per cent. This included increases of 16.3 per cent, 9.6 per cent and 4.1 per cent in coal, petroleum and natural gas respectively. All major metals except gold declined over the month, resulting in a 3.9 per cent decline in the metals component of the mining index. Gold production rose 6.3 per cent.

The manufacturing index in August was 0.5 per cent higher than in July and 7.0 per cent higher than in August 1964. Durables and non-durables shared in the gain, rising 0.6 per cent and 0.4 per cent respectively. The bulk of the rise in durables, in terms of contribution, came from a 3.5 per cent gain in wood products and a 3.2 per cent increase in electrical apparatus and supplies. Non-ferrous metal products declined 2.8 per cent, and non-metallic mineral products declined 1.8 per cent. Much of the gain in non-durables was due to increased textile production, particularly the 6.2 per cent rise in synthetic textiles and silk.

Motor vehicle production in October was 72,590 units, including 60,158 cars and 12,432 trucks. Approximately one of every five cars produced that month was destined for export. The production figures were considerably in excess of October 1964 — over 75 per cent higher — due to last year's General Motors strike in the United States and the related lay-off in Canada.

Following a month of lower production, steel ingot production in October rose by 6.6 per cent to a level of 864 thousand tons. This was 11.0 per cent higher than the 778 thousand tons produced in October 1964. Comparing ten-month periods for this year and last year, there has been a substantial increase of 10.5 per cent in production.

Manufacturing shipments in Ontario, unadjusted for seasonal variation, were $1,286.8 million in August, 10.4 per cent higher than August of last year.

Construction

Construction activity continued to exert its stimulating effect on the Ontario economy in November. During that month construction contract awards totalled $177.2 million, an increase of 1.9 per cent over November 1964. At the same time this brought the cumulative eleven-month total for 1965 to $2,007.5 million, 20.9 per cent higher than the corresponding eleven-month period last year.

In terms of value, Ontario accounted for over 64 per cent of all larger construction contract awards placed recently in Canada. Such awards are each valued at $1 million or more. Some of the awards included in Ontario's approximate total of $71.1 million are listed in the following table.

LARGE CONSTRUCTION AWARDS PLACED RECENTLY IN ONTARIO

Location	*$ Million*	*Description*
Brampton	1.2	Housing
Burlington	1.8	Apartment
Cornwall	3.0	Chemical plant
Etobicoke	3.5	High school
Fort Erie	1.6	Hospital addition
Hamilton	1.3	Apartments
Hoyle Twp.	1.0	Ore concentrator
London	1.8	Hospital addition
Moore Twp.	1.0	Plant
North Bay	1.5	Department store
Ottawa	1.4	Bridge
Peterborough	6.0	Apartments
St. Catharines	1.5	Office building
Scarborough	4.0	Shopping centre
Toronto (Metro)	20.8	Apartments
Woodstock	2.0	Factory
Various locations	3.4	Welland Canal improvements

The seasonally-adjusted value of business, industrial and engineering contracts in October, at $98.1 million, was down 37.0 per cent from the very high level of $155.7 million recorded in September. Nevertheless this represented a gain of 13.9 per cent over October 1964. Housing contracts, on the other hand, rose over the last month, to achieve a value of $56.6 million in October. This was 27.8 per cent higher than the relatively low value of $44.3 million for the month of September, but only 4.0 per cent higher than October 1964.

The seasonally-adjusted data further reveal that in September there was a substantial decline in new dwelling unit starts. This decline of 39.5 per cent points out not so much the limited number of starts in September – recorded at 4,465 – as it does the exceedingly high August figure of 7,377 starts. However, the September figure shows almost no change in dwelling unit starts from one year ago. New dwelling unit completions also declined, but not as sharply. Completions fell from 4,075 in August to 3,269 in September – a reduction of 19.8 per cent.

Employment

The most outstanding feature of the Ontario economy during the month of October was the achievement of the lowest rate of unemployment in thirteen years. Seasonally adjusted, the number of unemployed was 47 thousand, or 1.8 per cent of the labour force. Not since 1953 have labour resources been as fully utilized.

In terms of the change from the previous month, the size of the labour force declined from 2,600 thousand in September to 2,586 thousand in October, a reduction of 14 thousand. The number employed, however, rose from 2,531 thousand to 2,539 thousand. Unemployment thus dropped from 69 thousand to 47 thousand, with the unemployment rate falling from 2.7 per cent in September to 1.8 per cent in October.

Canada too enjoyed the lowest rate of unemployment in many years. Out of a total labour force of 7,108 thousand there were 224 thousand unemployed – a rate of 3.2 per cent. This rate, having declined from 3.6 per cent in September, was lower than at any time since November 1956, when it was 3.0 per cent.

On the basis of the average seasonally-adjusted statistics for the ten-month period this year, Ontario's labour force has numbered 2,610 thousand and the rate of unemployment has been 2.6 per cent. Canada, with the labour force averaging 7,122 thousand, has had an average rate of unemployment of 4.0 per cent.

Exports

Canadian exports in August were valued at $685.7 million, according to the Dominion Bureau of Statistics. This surpassed the August 1964 value by $11.6 million. Over 45 per cent of the total exports were inedible fabricated materials, of which about one-half were products of the forest. The second-largest major group, inedible crude materials, represented 23.3 per cent of total exports in August. Of the $160.0 million accounted for by this group, $46.8 million were iron ores and concentrates, $23.3 million crude petroleum, $12.7 million nickel in ores, concentrates and scrap, and $12.5 million unmanufactured asbestos. Food, feed, beverages and tobacco, at $123.3 million in August, were the next-largest group, with wheat exports valued at $63.9 million by far the most significant contributor.

Inedible end products, making up 12.2 per cent of all exports in August, reflect the extent to which Canada sells fully manufactured non-food products. Of their total value of $83.9 million, $18.2 million were aircraft and parts, $11.9 million motor vehicles and parts and $11.9 agricultural equipment.

On an eight-month basis, total exports rose by 1.5 per cent to $5,357.3 million from 1964 to 1965. Inedible end products, valued at $826.5 million, were up 16.1 per cent, largely due to the expansion of motor vehicles and parts exports. These rose by 83.9 per cent, from $98.8 million in the eight-month period of 1964 to $181.7 million in that period in 1965.

In terms of distribution by destination, the United States accounted for 57.8 per cent of our exports and the United Kingdom 14.4 per cent. Japan and Germany followed with 3.7 per cent and 2.1 per cent respectively.

Finance

The supply of loanable funds in all sectors of the Canadian money market, having remained relatively limited in recent months, increased slightly during October. Reflecting this condition, the day-to-day loan rate was generally quoted in a 3¾ per cent - 3⅞ per cent range throughout this period; this represented a ⅛ to ¼ of 1 per cent decline for the month.

Light trading volume and minor downward price adjustments characterized activity on outstanding issues on the Canadian bond market in October. Short-term issues were off 10 to 15 cents over the month while longer-termed maturities registered losses averaging 25 cents. Contributing to this easier tone was a prevailing sentiment of apathy as the market awaited an impending heavy schedule of new floatations, particularly a sizable Government of Canada refunding issue. By the end of October new Canadian bond financings totalled $3.18 billion, an increase of no less than 25.2 per cent over last year's comparable total of $2.54 billion.

Investment quality industrial equities listed on the Canadian stock exchanges, on the merits of additional increases in corporate earnings, continued to be in good demand throughout most of the month. Price changes, while widespread, were nevertheless confined to a narrow range. As measured by the Toronto Stock Exchange Industrial Index, prices advanced relatively steadily, closing October at a month high of 170.04 for a 2.52 point gain on Index over the month.

Canada's official holdings of gold and U.S. dollars again increased in October and at month-end totalled US $2,643.8 million. The net increase over the month amounted to slightly less than US $30 million.

In terms of U.S. funds, the value of the Canadian dollar appreciated slightly during October. Strength was evident throughout the month as its value rose from an opening level of US 92.92 cents to a closing level high of US 93.06 cents.

CONCENTRATION AND COMPETITION IN ONTARIO'S FLUID MILK INDUSTRY

DUNCAN ALLAN
Economist, Financial Research Branch
ONTARIO DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Processing and distribution of fluid milk and cream has for many years been a leading manufacturing activity in Ontario. Throughout the last two decades this important industry has undergone rapid and fundamental changes. This study focuses on two of these post-war developments in Ontario's fluid milk industry, namely, the trend toward increased concentration, and the revival of competition. As a background to the discussion of these two main themes, we have outlined the basic characteristics and essential dimensions of the fluid milk trade in this province. The study concludes by drawing together the main findings and appraising their significance for the future.

ESSENTIAL BACKGROUND

Before proceeding with an analysis of concentration and competitive conditions in the Ontario fluid milk industry, it is important to have an understanding of the industry's basic structure and characteristics and an awareness of the fundamental changes occurring within it. Such a background involves some comment on the size of the industry and its growth pattern, the number and size of dealers, the nature of demand, the methods of distribution, the impact of technological changes and the pervasive influence of government. These matters are considered in this section of the paper.

Definition of the Industry

At the outset it is essential to clearly lay out the perimeter of the industry with which we are dealing. Accordingly, the Ontario fluid milk industry is defined as consisting of *all establishments in Ontario engaged in pasteurizing and distributing fluid milk and/or fluid milk products.*[1] Substantially this means all dairies in Ontario that pasteurize, bottle and sell fresh milk, cream, buttermilk and chocolate drink. This concept of the industry corresponds

[1] This definition differs somewhat from the D.B.S. concept of "pasteurizing plants" or the U.S. Census definition of the fluid milk industry, although all three cover essentially the same activities. The D.B.S. and the U.S. Census industry designations include *all* products handled by establishments whose *main activity* is pasteurizing and distributing fluid milk and cream.

closely to the universe of plants and products coming under the supervision and jurisdiction of the Ontario government's regulatory agency – the Ontario Milk Commission.

Size and Growth of the Industry

Annual sales of the Ontario fluid milk industry presently amount to about $200 million while employment stands at nine to ten thousand.[2] In terms of value of factory shipments the fluid milk trade ranks among the twenty leading manufacturing industries in Ontario. It compares in size with the combined breweries and distilleries industries in this province.

Over the last two decades the industry has grown slowly as compared to the growth performance of Ontario manufacturing generally. In volume terms fluid milk sales in Ontario increased by 41 per cent between 1945 and 1961, while the population grew by 55 per cent. (See Table I, page 12.) In the United States the long-term growth trend of the fluid milk industry has been similarly static.[3]

Fluid milk and fluid milk products are distributed in every community in the province, but the large cities account for the great bulk of sales. Some 60 per cent of fluid milk sales and over three-quarters of all cream sales are in the "Golden Horseshoe" plus Windsor, London and Ottawa, and it is in these centres that the large distributors are located. Practically all fresh milk consumption is now supplied by commercial dairies, though 20 years ago about one-quarter of all fluid milk was consumed in raw form on the farm.

Number and Size of Distributors

At the present time there are some 380 to 400 fluid milk distributors or licensed commercial dairies in Ontario.[4] In 1946 some 630 distributors served a considerably smaller market. Over the last two decades, therefore, there has been a drastic reduction in the number of establishments in the industry and a substantial increase in their average size. This trend to fewer but larger units may be attributed to numerous factors, including technological advances in processing, improvements in transportation and refrigeration, changes in methods and channels of distribution, and the merger activity of recent years, all of which are discussed later in the paper. One other factor which undoubtedly has been important is the existence of substantial economies of scale in the milk distribution industry.

In the business of pasteurizing, bottling and distributing milk, fixed costs are a relatively high proportion of total costs, hence there is a constant pressure to expand output and spread these fixed costs over a larger volume. As the table below indicates, larger plants generally are able to achieve lower unit costs than smaller plants because they are able to obtain higher output per hour of labour and per dollar of investment.

Relation of Plant Size to Capital Requirements and Cost per Unit in Fluid Processing Plants

Capacity of Plant (quarts daily)	*Investment per quart of daily capacity*	*Total Costs per quart*[1]
6,000	$24	$.057
20,000	11	.039
50,000	8	.032
100,000	7	.029

[1] Reflects all costs, including containers.

Source: F. C. Webster and others, *Economics of Size in Fluid Milk Processing Plants*, Vermont Agricultural Experimental Station Bulletin No. 636, June 1963, pages 5 and 8.

Similarly in the delivery operation a high volume per route means lower costs per unit, particularly if deliveries are made in large drops, such as to supermarkets.[5] These economies of scale in both processing and distribution have proven a strong impetus to the expansion of dairies, both by internal growth and by means of mergers.

Of the large number of distributing firms in Ontario only three – Borden, Silverwood and Dominion Dairies – operate more than one or perhaps two plants.[6] These multiplant firms had their origin

---

[2] There are no precise sales or employment figures which correspond to our industry definition. The D.B.S. data on "milk pasteurizing plants" however, may be used as approximations of these magnitudes. In 1961 the 373 establishments in Ontario which made up the milk pasteurizing plants industry employed 9,931 persons and had a total selling value of factory shipments of $178.2 million. (See D.B.S. publication #31-206 *Manufacturing Industries of Canada, Section D. 1961*, page 17).

[3] A recent publication by the U.S. Dept. of Commerce, *Growth and Labor Characteristics of Manufacturing Industries,* classifies the long term growth trend of the fluid milk industry as static, (i.e. the 1962/1947 ratio of value added was less than 75 per cent of the average ratio for all manufacturing).

[4] The range of 380 to 400 is an estimate by the author. The Ontario Department of Agriculture reported 406 regular distributor licenses issued in 1964, but in several instances a single distributor holds more than one license. D.B.S. shows 353 pasteurizing plants in Ontario for 1962, but this count excludes all those plants which distribute milk as a secondary activity to ice cream manufacturing or some other principal activity.

[5] Most deliverymen work on a basic salary plus a commission on sales, hence the larger the route's sales the lower the basic salary per unit sold.

[6] Silverwood distributes in 15 markets, Borden in seven and Dominion Dairies in five. Silverwood Dairies Ltd. is a Canadian-owned company while Borden Company Ltd. and Dominion Dairies Ltd. are wholly-owned subsidiaries of the two giant U.S. dairy processing concerns — The Borden Company, and National Dairy Products Inc., respectively.

in the 1920's when transport costs made it necessary for a firm to establish a dairy in each community in which it sold its products. Today there is an opposite trend, i.e. a movement toward centralization of processing and a widening of the radius of distribution around each plant. For example, Silverwood has recently shut down its processing plants in Chatham and Stratford and is supplying these markets from Windsor and Kitchener respectively. Similarly, Dominion Dairies has for the past several years supplied its Hamilton and Pembroke branches from Toronto and Ottawa. This would seem to indicate that any strong advantages multiplant firms may have enjoyed in the past have largely evaporated.[7]

Demand for Milk

Because of its nutritive qualities, milk is commonly regarded as a vital food, particularly for infants and children. This conviction that milk is a necessity plus the fact that there are no adequate substitutes for it means that price changes have little effect on consumption.[8] In other words, the demand curve for the industry as a whole is inelastic. Up to recently the same thing could be said of the demand curve of individual markets, because high transport costs effectively prohibited the movement of milk from one community to another.

The demand curve faced by individual distributors, on the other hand, is very elastic. Customers will rapidly shift from one distributor or outlet to another if there is any significant price incentive to do so. This reflects the simple homogeneous character of the product and the ready access by consumers to alternative sources of supply. The pricing behaviour and trade practices of the distributors in a market, therefore, tend toward uniformity.

Major Technological and Market Changes

Since World War II there has been a technological and merchandising revolution in the fluid milk industry. Innovations in transportation, processing, packaging and distribution of milk have disrupted the traditional patterns of behaviour in the industry and created serious problems of adjustment for many dealers.

Improvement in transportation facilities caused major changes in the industry. The replacement of horses and wagons by trucks, and the use of refrigerated transport were two important developments that reduced the technical and cost barriers of transportation. These improvements tended to extend the range of delivery vehicles, broaden the potential market which a distributor could serve, and open up isolated markets to outside competition; these pressures in turn squeezed out of the industry many small dairies and those that failed to keep abreast.

In processing, innovations have been mainly in the direction of increasing the speed or flow of milk through a plant and perfecting the various control mechanisms necessary at certain stages in the production cycle. Some specific advances include: the use of electronic rather than manual controls, the change from batch pasteurization to the high-temperature short-time method, in-place cleaning, automatic casing and stacking, and the application of computers to handle payrolls, billings, inventory control, etc. This new technology has tended to favour large plants since it has increased the capitalization and scale of operation necessary to utilize effectively even the minimum combination of inputs. G.L. White made this point in a paper he presented at the 1962 Workshop of the Canadian Agricultural Economics Society:

> "A modern fluid processing plant may be operated from a central panel with very little additional supervision, but the capital expenditure involved for such a high degree of automation can only be justified where fairly large volumes of milk are processed."

One researcher, Dr. P. H. Tracy, Department of Food Technology, University of Illinois, has estimated that a modern fluid plant must have a volume of at least 30,000 quarts a day to make effective use of the latest technology.

In the area of packaging there has been a great diversification in the sizes and types of containers available to consumers. Whereas the one-quart glass container was practically the universal package after the war, today milk is sold in glass, paper, and plastic containers in a variety of sizes from one quart to eight quarts. The three-quart bottle, pioneered by jug store outlets, and the two-quart paper package sold in supermarkets have proven particularly popular.

---

[7] Because of their geographic diversification multiplant firms such as the "Big Three" probably enjoy some advantage over purely local distributors when competing for the milk business of large supermarket chains.

[8] The elasticity of demand for milk (retail) has been estimated by various researchers as somewhere in the neighbourhood of one-half. A. S. Rojko calculated an elasticity ranging from one-fifth to one-half but stressed the importance of the time dimension in making such an estimate. He argued that while price increases may not engender any immediate shift or reduction in milk purchases the long-run reaction by consumers might be quite different. (See pp. 109-110 *The Demand and Price Structure for Dairy Products*, U.S. Department of Agriculture Technical Bulletin No. 1168, 1957.)

The last two decades have also witnessed the appearance of new products, while some older ones have gradually passed into oblivion. In the latter category are special milk and cream top milk, while 2% and skim are the major newcomers. Differentiation of milk along breed lines (e.g. Golden Guernsey, 2% A-J, Ayrshire Extra) has also been tried and is enjoying considerable success.

The distribution side of the milk industry has undergone a radical transformation during the last 20 years. The traditional system of door-to-door delivery has steadily given way to distribution through supermarkets, jug stores and vending machines. Institutional outlets such as restaurants and hotels have likewise increased in importance. Perhaps 50 per cent of all milk now sold in Ontario reaches consumers through these indirect channels (i.e. about one-half of all sales by distributors are now of a wholesale rather than retail nature). This shift from direct retailing to wholesale selling has created important problems of adjustment for many dairies, particularly small dairies. In the past, smaller firms were able to concentrate on carving out a slice of the home delivery business; as this business declines their chances of survival grow slimmer.[9] The trend to wholesale distribution has also had repercussions for the large distributors, as it has pitted them against supermarkets and other large volume buyers who enjoy a strong bargaining position.

Government Supervision of the Fluid Milk Trade

Since 1934 the Ontario government has been deeply involved in all aspects of the fluid milk industry, from primary production to final retailing. At the distributor level the government, through its quasi-judicial Milk Board, has played the role of policeman and watchdog and has exerted a powerful influence on prices, trade practices, conditions of entry, indeed the whole competitive environment, or lack of it, in the industry.

From 1934 to 1948 the Board set prices to consumers and to producers directly, thereby forcing distributors to operate at specified margins. After the scathing criticisms of this retail price control by Justice Wells in 1947, it was abandoned, only to be replaced in 1951 by a system of formula pricing.

Licensing has been a major instrument of government control and supervision over the industry. The Board (and its successor, the Milk Commission of Ontario) has the power to prevent any operator from participating in the fluid milk trade in Ontario simply by refusing to grant him a licence. Through its licensing policy the Board has promoted a reduction in the number of existing distributors, and has discouraged new firms from entering the trade. By prescribing specific territories or distribution areas on its licences, moreover, the Board has effectively insulated individual markets and individual dairies from outside competition, and curbed potential expansion by certain aggressive firms.[10] These artificial restrictions have mitigated against the drive for more efficient handling and distribution of fluid milk. Multiplant firms, for example, have been forced to continue operating branches in small centres, rather than serving these centres from outside, in order to protect their licensing privilege in such centres. Much the same result has been achieved in smaller centres such as Oakville, Cobourg and Trenton by the enactment of municipal by-laws to protect the local dairies from out-of-town competition.

MERGERS AND CONCENTRATION IN THE INDUSTRY

Of the many changes noted in the preceding section, none has been more obvious or significant than the steady decline in number and growth in size of Ontario dairies. Since World War II the number of distributors serving Ontario communities has shrunk by over 230, or more than one-third. In the Toronto market the reduction has been more drastic, from 54 dairies in 1946 to 17 today. During the last 20 years many established firms have disappeared by way of merger or consolidation with other dairies, most of the surviving firms have expanded considerably, and only a handful of new firms have entered the fluid milk trade in Ontario. This tightening structure of the industry would seem to imply an increase in concentration, i.e. an increase in the market share or control in the hands of the largest firms. This matter of the degree and the direction of concentration in the industry is considered below.

Concentration in 1961

In 1961 the three large chain dairy organizations – Silverwood, Borden and Dominion Dairies – ac-

[9] In its 1964 annual statement, Silverwood reported a two per cent decline in retail sales and a 15 per cent gain in wholesale sales.

[10] Section 29 of the Act empowers the Board to "issue to a distributor a license to sell or distribute fluid milk products in any designated area or part thereof . . ." and distributors are prohibited from doing business in any other area.

counted for 34 to 35 per cent of all sales of fluid milk and fluid milk products in Ontario. The combined market share or penetration of the "Big Three" was 34 per cent for all fluid milk, 42 per cent for all types of cream, 42 per cent for buttermilk and 32 per cent for chocolate drink. This concentration of industry sales in the hands of only three out of some hundreds of distributors is all the more significant when we recall that the "Big Three" operate in only 17 markets in the province. In those communities where two or all three firms distribute, the combined "Big Three" sales amount to from one-half to three-quarters of the total sales in the market.

Following in the wake of the "Big Three" in Ontario are some very substantial and aggressive independents. In 1961 seven such independents rang up over 10 per cent of all fluid milk sales, while these seven plus five other sizable distributors accounted for some 15 per cent of all sales. In total then, the 15 largest distributors sold over half of all the fluid milk and fluid milk products in Ontario in 1961. These concentration ratios which are developed in full detail in Table II on page 13 are summarized below.

Percentage of 1961 Total Industry Sales (by Volume)

	The "Big Three"	The "Big Three" plus 7 Large Independents[1]	The "Big Three" plus 12 Large Independents[2]
Fluid Milk	34	44	49
Cream	42	54	N/A
Buttermilk	42	54	N/A
Chocolate Drink	32	43	N/A
All fluid milk and fluid milk products	34-35	45-46	over 50

[1] The seven large independents are: London Pure Milk (London); Purity (Windsor and Chatham); Royal Oak (Hamilton); Donlands (Toronto); Becker (Toronto); Maple Lane (Kitchener); and Clark (Ottawa).

[2] The other five independents are: Valley View (Toronto); Royal (Guelph); Oshawa Dairy (Oshawa); Westside (Kitchener); and Lakeview (Barrie).

It is interesting to compare the degree of concentration in the Ontario industry with that in other jurisdictions. Unfortunately, it was impossible to secure figures on concentration in other provinces; there is reason to believe, however, that the fluid milk industry in Ontario is less concentrated than that in any other province, except perhaps Quebec.[11] Comparisons with the United States are difficult because of differences in the sizes of the industries to which the concentration ratios apply. On a national scale, the four largest dairies in the United States accounted for 23 per cent of fluid sales in 1958, while the eight largest accounted for 29 per cent. On the smaller scale of Federal order markets, concentration in the United States is of course considerably higher. The five largest Federal order markets – those with sales in excess of 60 million lbs. per month or roughly one-third to one-half of Ontario's sales volume – had an average concentration of 46.7 per cent in March 1962. That is, the four largest handlers (distributors) in these five Federal order markets accounted, on the average, for 47 per cent of the dollar sales in the total market. These American figures indicate at least some sort of parallel or similarity between the fluid milk industry in Ontario and its counterparts in the United States.

Increased Concentration Since 1945

The only reliable estimates of concentration in the Ontario fluid milk industry in the past were those contained in the Wells Report published in 1947.[12] That report estimated the degree of concentration in the Ontario fluid milk industry in 1945 as follows:

Percentage of 1945 Total Industry Sales (by Value)

	The "Big Three"	The "Big Three" plus 55 Independents
Fluid Milk and Cream	30	N/A
Chocolate Drink	30	N/A
All other products (ice cream, butter, etc.)	53	N/A
All dairy products	39	57

Obviously, the industry definition and method of measurement used by Justice Wells were somewhat different from those adopted in this paper. Nevertheless, the 1945 concentration figures for fluid milk, cream and chocolate drink can reasonably be compared with those for 1961. And comparison of the two sets of data reveals an increase in market concentration over the period, both by the "Big Three" and by the large independents. Between 1945 and

[11] In the first place, Ontario has over half of all the distributors in Canada. Secondly, other provinces have large cooperative milk distributors such as F.V.M.P.A. in B.C., Farmers Ltd. in Nova Scotia, and Saskatchewan Co-op Creamery Assoc. in Saskatchewan, as well as large chain dairy organizations such as Modern Dairies and Palm Dairies in the West, Sussex Cheese and Butter Co. Ltd. in New Brunswick, Leo Lacteries Leclerc and La Ferme St. Laurent Lté. in Quebec.

[12] This is the popular title of the report of the *Ontario Royal Commission on Milk*, 1947.

1961 the "Big Three" increased their combined share of Ontario fluid milk sales from 30 per cent to 35 per cent. Over the same period the number of independents needed to account for 15 per cent to 20 per cent of total sales dropped from 55 to about a dozen.

As between different products, the largest increase in concentration was in cream and the smallest increase in chocolate drink. Between 1945 and 1961 the "Big Three" raised their market penetration in cream from 30 per cent to 42 per cent; this indicates an increased occupancy by the "Big Three" in the major markets and a stronger position in the wholesale end of the business. The relatively minor change in the proportion of chocolate drink sales in the hands of the "Big Three" (from 30 per cent in 1945 to 32 per cent in 1961) was due to the relative unattractiveness of this portion of the business to the big companies.

The increase in concentration during the post-war period may be attributed to two main causes: the shift in consumer demand from standard milk to 2% and skim milk, and the substantial merger activity in the industry. The effect of demand shifts upon concentration is discussed below, while mergers are treated in the following section.

Skim milk and partly skimmed milk (2%) were introduced in the Ontario market around 1952 and 1956 respectively, and both immediately caught on as substitutes for regular homo milk (see chart below).

Trends in Volume of Sales of Skim Milk and 2% Milk

Skim Sales (1952 = 100)		*2% Sales (Nov. 1956 = 100)*	
1953	114	Mar. 1957	165
1955	151	Mar. 1960	652
1957	191	Mar. 1961	691
1959	200	Mar. 1962	893
1960	201	Mar. 1963	1,041
1961	200	Dec. 1964	1,440
1964	203		

Large dairies not only led the way in introducing these new types of fluid milk, but also promoted them vigorously because of certain side advantages.[13] Small distributors, on the other hand, have been at a disadvantage because they lack the equipment to process 2% or skim milk, and do not produce the secondary products (butter, ice cream, cottage cheese) necessary for effective utilization of the surplus butterfat. As a result, 2% sales and skim sales have always been more or less the preserve of the larger distributors. The tremendous increase in popularity of 2% and to a lesser extent of skim milk, therefore, has inevitably resulted in a larger share of total fluid milk sales falling into the hands of large distributors, particularly the "Big Three".

The History of Mergers

Since World War II, several hundred milk distributors have disappeared from the Ontario industry. Table III, on page 14 at the end of this study, records 93 such instances where Ontario distributors have gone out of business since 1945. This record, though incomplete, indicates that most of the dairies that disappeared were purchased by other distributors, while a handful joined together with a competitor to form a larger, stronger unit. Bankruptcies, on the other hand, were rare; only four cases are recorded in the *Canadian Dairy and Ice Cream Journal* – in 1948, 1952, 1953, and 1963.

Generally when a distributor purchased or absorbed another dairy, the new owner closed down the plant of the defunct operator, after transferring or disposing of the processing equipment. In a few exceptional cases, no physical assets were included in the buying-selling transaction.

The "Big Three" have been active participants in the merger movement since 1945; these three companies were involved in 26 out of the 97 cases mentioned above. The major acquisitions of Dominion Dairies since 1945 were Sani-Sealed Dairies (Toronto) in 1952, London City Dairies in 1955, Fairfield Modern Dairy (Hamilton) in 1955, and Roselawn Farms Dairy (Toronto) in 1962. During the same period Borden acquired control of seven distributors, including: Robb-Brown Dairies and Wilson Dairies (London) in 1956, Gold Seal Dairies (London) in 1959, Terrace Hill Dairy (Brantford) in 1959 and Rainbow Dairies (Niagara Peninsula) in 1964. Silverwood has taken over 12 distributors since the war, six of which were relatively large operations.[14] Several of the large independents also have added substantially to their sales volume by acquiring existing distributors, though generally of smaller size than those absorbed by the "Big Three".[15]

[13] For many years distributors paid producers 34¢ a pound for milk fat in raw milk, while the market value for this fat (in the form of butter or ice cream or fresh cream) was 50¢ or more per pound. Hence a distributor could realize an "extra" profit by selling 2% milk and converting the extra fat into butter.

[14] These six were: Hamilton Springbank Dairy in 1948; Walnut Dairy (Toronto) in 1956; Johnson-Hill Dairy (London) and Lakeshore Dairy (Toronto) in 1960; Paulger's-Blantyre Dairy (Toronto) in 1961; Mason's Dairy (St. Catharines) in 1962.

[15] In the United States the Federal Trade Commission has barred further mergers by the four largest dairy corporations (see Business Week, May 22, 1965).

The mere occurrence of the mergers noted above cannot be construed as necessarily contributing to increased concentration in the industry. But taken in conjunction with other considerations such as the paucity of new entrants, the stable mortality rate, and the lack of any obvious reasons for slower growth by the "Big Three" than by other distributors, this history of mergers seems to have been an important cause of the increased concentration in the Ontario fluid milk industry.

There are several reasons why milk distributors find it advantageous to expand by way of merger: to exploit scale economies; to get access to protected distribution areas; to increase market share without adding to the capacity in the industry; or to gain a foothold in new markets. Of the 93 mergers recorded in Table III, six were clear cases of one distributor buying out another as a means of expanding into a new market. In those cases where the routes and facilities of the purchased dairy were assimilated into the buyer's operation, exploitation of scale economies to achieve lower costs was probably the ultimate rationale for the merger. From the viewpoint of the distributors that disappear there is also an advantage in doing so by way of merger. To the distributor in financial difficulty, absorption by another firm provides the chance to dispose of the business as a going concern and thereby realize a better price for the goodwill portion of the assets.

The Present Position of the "Big Three"

In 1947 Justice Wells made the following observation on the significance of the "Big Three" in the Ontario fluid milk industry:

> "These three companies unquestionably exercise a large influence in the industry in Ontario, not only because of the efficiency of their methods and the high quality of their products, but because of the lead which they give independent concerns which operate in a similar fashion."

In addition he noted that the "Big Three" controlled 30 per cent of the market for fluid milk, chocolate drink and cream in 1945. As we have seen this "Big Three" share climbed to some 35 per cent by 1961. Today it may be closer to 40 per cent of total industry sales.

This postulation that the "Big Three" market share has risen considerably since 1961 is supported by two observations. First, there has been an intensification of merger activity in general since 1961 and the "Big Three" have played a leading role in this activity. Five large independents have been absorbed by the "Big Three" subsequent to our 1961 measure of concentration (Paulger's-Blantyre, Terrace Hill, Mason's, Roselawn Farms, and Rainbow); only three of the largest independents, on the other hand, have purchased additional sales volume since 1961. Second, and perhaps equally important, has been the tremendous expansion in 2% sales since 1961, as opposed to an actual decline in standard milk sales. This shift in the product mix of the industry has almost certainly boosted the sales of the larger dairies such as the "Big Three" relative to the sales of distributors handling only the regular line of milk.

The present 35 to 40 per cent control of industry-wide sales by the three large chain dairy organizations considerably understates their actual or potential economic power in particular markets. In each of the five major markets except Toronto, the "Big Three" along with a single independent virtually overwhelm other distributors. In Toronto, four aggressive independents – Becker, Donlands, Valley View and Findlay-Kemp, have prevented the "Big Three" market share from climbing above 60 per cent. The overall trend, however, is clearly in the direction of greater concentration of sales and control of the fluid milk industry in the hands of a few giant firms.

COMPETITION IN THE FLUID MILK INDUSTRY

The second major interest of this study has to do with the degree and type of competition that prevails in the Ontario fluid milk industry, and the changing dimension and character of such competition in recent years. Under this general subject area will be discussion on: the interdependence of distributors in pricing; the absence of price competition prior to 1948; interfirm price competition within individual markets and between markets; the effect of concentration on competition; and the threat of competitive abuses and practices requiring action by the combines authorities.

Interdependence of Distributors in Pricing

In our earlier discussion of the nature of demand for fluid milk, it was noted that the pricing behaviour and trade practices of distributors in a market tend to be identical or uniform. The basic reason for this uniformity in behaviour is the high

degree of interdependence among distributors, due to:

(a) the limited number of firms in each market;

(b) the homogeneous nature of the product, which means that consumers will readily shift from one distributor to another;

(c) the inelastic demand curve in a market;

(d) the identical buying price or cost to distributors for their raw milk requirements.

Under these conditions, a price reduction by any distributor in a market will in all probability be met by the others, and conversely, any single firm will be reluctant to raise prices for fear that his competitors won't follow. In essence this means that the collective body of distributors in any given market finds it in its best interests to practise restraint or discipline in the matter of pricing. This predisposition towards a "live and let live" policy in pricing and the tranquility it implies is often spoken of and praised as market stability or orderly marketing.

The interdependence and essential unity of interests of distributors in Ontario are reflected in their highly effective trade organization — the Ontario Milk Distributors Association. Under the OMDA, distributors have come together in each market to present a united front in bargaining with producers and with unions. The OMDA has also acted to bring about simultaneous retail price increases across the province whenever the government-sponsored pricing formula has indicated an increase in producer prices. In recent years there has been some evidence of a schism developing with the OMDA, with the small distributors lined up on one side and the large dairies on the other.[16]

The Tradition of Controlled Competition

In 1934 the Ontario government stepped in to regulate and supervise the fluid milk industry. Producer prices and retail prices were fixed, entry was limited, trade practices were rigidly controlled, and strict sanitary requirements were imposed by the government's control agency, the Milk Board. Price competition simply was not allowed to exist. Distributors vied for customers solely on the basis of service, advertising and locational advantage. Justice Wells succinctly described the competitive situation in the industry in 1947 in these words: "very little competition exists between distributors . . . "

In 1948 some vigour was restored to the industry by relaxing the direct control of retail prices. At that time the Milk Board was sufficiently wary of the potential for collusion among distributors that it held on to the power to impose maximum retail prices — a power which it retains to this day. Despite the strong distributor predisposition to avoid price competition, and despite a solid tradition of identical pricing, however, decontrol was rapidly followed by a revival of price competition in the industry.

Intramarket and Intermarket Competition Among Distributors

In contrast to 1947, a recent investigation of the Ontario milk industry found that "the competition among milk distributors in Ontario has been vigorous in recent years and is likely to increase in the immediate future."[17] Many factors have played a part in this revival of competition in the industry; we shall deal with only the most fundamental and important of them here.

The present evidence of competition in the industry is not restricted to the behaviour of firms within particular markets. For, in the last few years there has been considerable intermarket activity by distributors. This dimension to competition is fundamentally new, and has important ramifications for an industry which has for so long been organized into isolated, sheltered local markets. The major factors leading to intermarket competition have been technological in nature — improvements in transportation and refrigeration — but other factors such as the supermarket revolution in retailing and the development of paper packaging for milk were also important. These changes have made it possible for large dairies, like those in Toronto, to ship milk over a radius of 100 miles and compete with local distributors within this distance for the wholesale business. Such intermarket movement of milk, or the potential for it, has provided both a direct and a psychological stimulus to competition in the industry.

Competition between firms within individual milk markets has also been greatly intensified over the last decade. The introduction of new channels and methods of distribution, and the shift to wholesale selling have been the major causes of this increased competition between firms. There is still practically not price competition, however, in the home delivery segment of the trade.[18]

---

[16] The OMDA policy on licensing restrictions or protected marketing areas, for example, is neutral, though there are two opposite internal factions with strong views on this question.

[17] Page 180, *Report of the Ontario Milk Industry Inquiry Committee* (subsequently referred to as MIIC) published in March 1965.

[18] The formula pricing system has enabled distributors to readily announce retail price changes for an entire market, rather than raise their prices individually.

The growing importance of supermarket sales and other wholesale accounts has spurred distributors to bid aggressively to get this large volume business. This has led to secret price shading, rebates, discounts and other forms of price cutting. In 1959 it was estimated that in the Toronto market alone wholesale discounts amounted to over $1 million or about 5 per cent of the total wholesale gross in the market.[19] The emphasis on wholesale sales by certain dairies, moreover, means that the loss of even a single large account to another firm can be intolerable.[20] The supermarket chains in particular use their volume requirements as leverage to exact the lowest possible prices from supplying dairies. The wholesale milk business has not only given rise to direct competitive bidding in the industry, it has also disrupted convenient informal arrangements among distributors. For example, the traditional system of rotating wholesale accounts among the different dairies in certain markets has been jeopardized and in many cases abandoned because one or more distributors will no longer co-operate. Viewed in the context of the last 15 years, it might reasonably be said that the trend to wholesaling of milk has substantially freed the industry from its rigid pattern of price discipline.

The rise of jug stores and other low-cost forms of distribution also have served to jar the industry out of its habit of controlled pricing and restricted competition. Such cash 'n carry operations as Becker in Toronto are based on providing a minimum of service and charging low retail prices.[21] These low jug store prices in turn create pressure on the supermarkets to sell at the same levels, thus indirectly forcing distributors to take a lower return or risk losing accounts. Jug stores have also affected the home delivery trade. In order to arrest the decline in home delivery volume, distributors have introduced 3-quart jugs at lower unit prices and begun to feature "creams" and other products. Thus jug stores have not only acted as price leaders but also have exerted an influence on packaging and merchandising methods.

Summarizing this subsection, then, we may attribute the revival of competition in the Ontario fluid milk industry to three main underlying factors: decontrol of prices, rapid technological advances, and extensive shifts in consumer demand as evidenced by the new packages, new products and new methods of distribution. Another development that may have contributed to the increased competition in the industry was the concentration that has occurred. Contrary to the normal situation, there may be good grounds for concluding that increased concentration in Ontario's fluid milk industry has resulted in more effective competition. This question is discussed in the following subsection.

The Effect of Concentration on Competition

The long-run trend in the fluid milk industry to larger and fewer units is often construed as a threat to competition. Even Justice Wells felt obliged to say . . . "the distribution of fluid milk is a business in which large profits lie in large volume of distribution, and this fact naturally tends towards monopoly." However valid this cause and effect view of concentration and monopoly may be in general, it certainly is not self-evident in respect to the fluid milk industry in Ontario.

It is impossible to state flatly or with great confidence that the increase in concentration in the Ontario fluid milk industry has either inhibited or fostered competition. There are several reasons why competition in the industry may be more vigorous even though the "Big Three" have increased their share of the market. First, the large independents may have expanded by a relatively greater amount than the "Big Three", hence be in a stronger position to compete effectively, particularly for the wholesale business. In markets such as Toronto, Ottawa and Windsor this indeed appears to be the case. Second, the increase in concentration may have resulted in more aggressive inter-market activity than would have been the case if plants had remained smaller and more numerous. And third, increased concentration may have allowed more firms to reach a scale of operation which permits the production of a complete range of products and containers: new and better products and a wider choice to consumers are dimensions of competition just as much as lower prices. On the other hand, the concentration that has occurred may have deterred potential entrants because of the larger scale of operations and greater capitalization necessary for success, and thereby lessened the degree of competition. On balance, we conclude that the overall impact of increased concentration has been neutral. In our opinion the rise of the "Big Three" and other

---

[19] From a study by the Ontario Department of Economics and Development.

[20] A drop of say 30 per cent in a distributor's volume means that unit costs are much higher, hence there is great pressure to cut prices further in order to get back the volume necessary to operate at full capacity. Such a situation occurred in 1964 in the Toronto market when Dominion Dairies lost the Loblaw account to Donlands.

[21] Becker now has about 80 stores and there are perhaps 200 such stores all across Toronto. Jug store chains, such as Uplands, and Mac's are "captives" of the regular distributors, Findlay-Kemp and Silverwood, respectively.

substantial distributors has contributed much to the progress of the industry, without seriously undermining the competitive character of Ontario fluid milk markets.

Competitive Abuses: The Combines Investigation Act

In the last decade there have been three occasions when the Combines authorities have stepped in to investigate a competitive situation in the Ontario fluid milk industry. The first two occasions — in 1954 and 1959 — involved complaints that Toronto distributors were combining to restrict competition.[22] The third case was in 1961 and this time centred around predatory price cutting in the Ottawa market. In the 1954 and 1959 investigations it was discovered that the situation had corrected itself, hence no further action was taken.[23] The Ottawa price war, on the other hand, gave rise to an extensive inquiry and led to a recommendation that the principals involved be prosecuted under Section 33A of the Act.[24]

The 1961 case illustrated the only real danger of totally unrestricted competition in the industry, namely, the possibility that multiplant firms will engage in regional price discrimination.[25] If large geographically diversified firms are allowed to spark localized price wars, a permanent impairment of market structure and competition will undoubtedly result. This form of destructive competition must be prevented by quick and decisive action under the Combines Act.

[22] The 1954 complaint alleged that Toronto dairies refused to submit competitive tenders for hospital milk accounts. The 1959 complaint claimed that Toronto distributors were enforcing resale price maintenance within the market.

[23] The 1959 case is of interest in that it points up the strong influence of the Ontario government on the industry. Note, for instance, the following comment by the Director when reporting the case in 1961. (See p. 21, *Report of the Director*, year ended March 31, 1961.)

> "The evidence indicated that on September 21 and 23, 1959, meetings with the distributors were convened by the Dairy Commission. An examination of what took place at those meetings indicated that efforts were made to have the industry discontinue all discounts and rebates at the wholesale level and to prevail upon all retail outlets to maintain minimum retail selling prices."

[24] See the *Report on Ottawa Milk Pricing*, September 1964. Producers Dairy has in fact, been charged with violating Section 33A of the Act, but the case has not yet come to trial.

[25] In support of the recent F.T.C. 'merger guidelines' for the U.S. dairy industry, Commissioner Elman discussed the threat to competition posed by powerful multimarket companies:

> "A firm strongly entrenched in a number of markets may thereby be able to engage in deep, sustained and discriminatory price cutting", which "may be a potent weapon for repulsing new competition and preventing entry by smaller firms". *(See Business Week, May 22, 1965.)*

CONCLUSIONS

This study is quite long and deals with a complex and broad subject area. Therefore, we have summarized the main findings that have come to light and reiterated those conclusions which seem most important.

1. The Ontario fluid milk industry may be usefully and realistically conceived as embracing all establishments in Ontario engaged in processing and distributing fluid milk and/or fluid milk products.

2. The industry has undergone two decades of rapid change and innovation which have profoundly altered its structure and character. The pace of change, moreover, seems to be accelerating.

3. Consolidation of processing and distributing facilities has been a major result of the changes that have occurred. This consolidation reflects the substantial economies of scale inherent in the fluid milk business, the great technical advances that have been made, and the important shifts in consumer demand that have occurred.

4. Traditionally the industry has consisted of isolated local markets, organized along oligopolistic

TABLE I

GROWTH OF THE ONTARIO MARKET FOR FLUID MILK AND FLUID MILK PRODUCTS
1945 to 1964
(Sales by Licensed Commercial Dairies)

Year	*Fluid Milk*	*Cream*	*Chocolate Drink*	*Buttermilk*
		(millions of quarts)		
1945	432.9	12.4	16.3	5.5
1950	434.0	13.5	11.5	4.9
1955	529.7	16.1	14.4	8.0
1960	604.7	21.1	16.7	7.4
1961	609.5	22.1	17.0	7.5
1962	626.5	23.6	19.0	7.4
1963	642.9	24.2	20.7	7.4
1964	662.5	25.5	22.4	7.2
% Increase 1961/1945	40.8%	78.2%	4.3%	34.5%
% Increase 1964/1945	53.0%	105.6%	37.4%	30.9%
% Increase 1964/1955	25.1%	58.4%	55.6%	—10.0%

Growth in Ontario population
1961/1945 = + 55.8%
1964/1945 = + 64.7%
1964/1955 = + 25.1%

Source: Monthly Dairy Report, Farm Economics and Statistics Branch, Department of Agriculture.

lines. Improvements in transportation and refrigeration have gradually transformed this structure into a broader conglomerate of interrelated markets.

5. The nature of demand, the organization of markets, and the history of government control all served to mould the industry into a pattern of price discipline and restricted competition.

6. Between 1945 and 1961 the "Big Three" dairies increased their share or control of the industry from 30 per cent to 35 per cent. Today the "Big Three" market share may be as high as 40 per cent. In individual markets the "Big Three" control from one-half to three-quarters of the sales of fluid milk.

7. Several large independents also have become substantial powers in the industry. Twelve of the largest independents accounted for some 15 per cent of the market in 1961.

8. The chief causes of this concentration were the extensive merger activity since World War II and the important shift in consumer demand towards low fat milks.

TABLE II

CALCULATION OF 1961 CONCENTRATION FIGURES

The "Big Three"	*Sales in Ontario markets (except Ottawa)*	*Sales in Ottawa*[1]	*Total Sales by the "Big Three"*	*Total Industry Sales*	*"Big Three" Sales as % of Total Industry Sales*
		Millions of Quarts			%
Fluid milk	180.7	25.0	205.7	609.5	33.7
Cream	8.25	1.10	9.35	22.13	42.3
Buttermilk	2.95	.22	3.17	7.56	41.9
Chocolate drink	4.76	.74	5.50	17.01	32.3
Total fluid milk and fluid milk products[2]	(a) All products weighted equally:		223.7	656.2	34.1%
	(b) Cream sales weighted by four:		252	723	34.9%

The "Big Three" Plus 7 Independents	*Sales in Ontario markets (except Ottawa)*	*Sales in Ottawa*[1]	*Total Sales by the 10 Firms*	*Total Industry Sales*	*Sales by 10 Firms as % of Total Industry Sales*
		Millions of Quarts			%
Fluid milk	240.4	30.8	271.2	609.5	44.5
Cream	10.62	1.35	11.97	22.13	54.1
Buttermilk	3.85	.26	4.11	7.56	54.4
Chocolate drink	6.42	.91	7.33	17.01	43.1
Total fluid milk and fluid milk products[2]	(a) All products weighted equally:		294.6	656.2	44.9%
	(b) Cream sales weighted by four:		330	723	45.6%

	Total Sales by the above 10 Firms	*Sales*[3] *by Five other Independents*	*Total Sales by the 15 Firms*	*Total Industry Sales*	*Sales by 15 Firms as % of Total Industry Sales*
		Millions of Quarts			
Fluid milk	271	26	297	609	49%

[1] Sales in the Ottawa market were estimated on the assumption that the two firms — Borden and Dominion — accounted for 65 per cent of total market sales while the large independent — Clark — accounted for 15 per cent of total market sales. This assumption is in line with D.B.S. figures which indicate that the above three firms plus one other smaller firm accounted for 85 per cent of total fluid sales in Ottawa in 1961.

[2] In order to arrive at an overall concentration figure for fluid milk and fluid milk products, it was necessary to assign weights to each of the four products. In case (a) each product was weighted as 1. In case (b) cream was weighted as 4, and the other three products as 1, in recognition of the fact that cream is generally sold in half pints rather than quarts, and it retails at 75-80¢ per quart as compared to 20-25¢ for the other products.

[3] Author's estimate.

Sources: Farm Economics and Statistics Branch, Ontario Department of Agriculture; Dairy Statistics Branch, Agriculture Division, D.B.S.

9. Since 1948 there has been a great revival of competition within the Ontario fluid milk industry. Firms now compete vigorously for wholesale accounts within markets, and are extending their scope of operations into neighbouring markets.

10. Price competition for door-to-door milk is still practically non-existent. A system of formula pricing and the strong trade organization, the OMDA, may be the major reasons for this lack of price competition on home-delivered milk.

11. New low cost methods of distribution such as jug stores have disrupted the industry and tended to hold down retail prices, both on home delivery and in supermarkets.

12. Increased concentration in the industry has not diminished the degree or quality of competition.

13. The potential of multiplant firms such as the "Big Three" to engage in regional price discrimination or localized price wars constitutes an important threat to the long-run competitive vitality of the industry; cases of regional price discrimination require prompt and effective action by the Combines authorities.

14. In general, competition has been a dynamic and revitalizing force in the industry. Under a healthy competitive climate the fluid milk industry in Ontario is likely to progress towards greater strength and efficiency.

TABLE III

MERGERS AND CONSOLIDATIONS OF FLUID MILK DISTRIBUTORS IN ONTARIO

1945 to 1965

(as recorded in the Canadian Dairy and Ice Cream Journal)

Year	*Number of Mergers and Absorptions*	*Major Mergers and Consolidations*
1945	2	Acme Dairy and Farmers Dairy (Toronto) consolidated into single Toronto operation of Dominion Dairies
1946	4	
1947	2	
1948	4	Hamilton Springbank Dairy purchased by Silverwood (Hamilton)
1949	3	Sanitary (St. Catharines) purchased by Mason's (St. Catharines)[1]
1950	8	
1951	1	
1952	6	Sani-Sealed Dairies (Toronto) purchased by Dominion Dairies (Toronto). Burkhard (Kitchener) purchased by Maple Lane (Kitchener)
1953	2	
1954	4	Maple Leaf (Pembroke) purchased by Dominion Dairies (Ottawa)[2]
1955	5	Peerless Countryside Dairy (Windsor) purchased by Purity (Windsor). Fairfield Dairy (Hamilton) purchased by Dominion Dairies[2]. London City Dairies (London) purchased by Dominion Dairies[2]
1956	5	Walnut Dairy (Toronto) purchased by Silverwood (Toronto). Wilson Dairies (London) and Robb-Brown (London) purchased by Borden (London). Kent Dairy (Chatham) purchased by Purity (Windsor)[2]
1957	3	Burlington Lakeside (Hamilton) purchased by Royal Oak (Hamilton)
1958	6	Highland Dairy (Toronto) sold its routes to Blantyre, Valleyview and Rutherfords
1959	3	Gold Seal Dairies (London) purchased by Borden (London)
1960	7	Johnson-Hill Dairy (London) purchased by Silverwood (London)[1]. Lakeshore Dairy (Toronto) purchased by Silverwood (Toronto)[1]. Silverwood (Guelph branch) purchased by Royal (Guelph)
1961	5	Paulger's Blantyre (Toronto) purchased by Silverwood (Toronto). Brookside Dairy (Kingston) and Price's Dairy (Kingston) joined into single operation — Brookside-Price
1962	5	Roselawn (Toronto) purchased by Dominion Dairies (Toronto)[1]. Mason's (St. Catharines) purchased by Silverwood (St. Catharines). Terrace Hill (Brantford) purchased by Borden[2]
1963	4	Pleasant View (Pembroke) purchased by Clark (Ottawa)[2]. Sarnia City Dairy (Sarnia) and Purity Co-op Dairy (Sarnia) merged into single operation
1964	8	Rainbow Dairies (N. Falls, St. Catharines) purchased by Borden (Niagara Division)
1965 (Jan. to Oct.)	6	Brookside-Price (Kingston) purchased the milk division of Hemlock Park Dairy (Kingston). Silverwood acquired Jeffrey's Dairy (St. Catharines), Kingsville Dairy, and Campbell's Dairy (Peterborough). Findlay Dairy Ltd. and Kemp's Dairy Ltd. of Toronto merged to form Findlay-Kemp Dairies Ltd.
Total - 20 yrs.	93	

[1] No transfer of tangible assets or property, goodwill only.

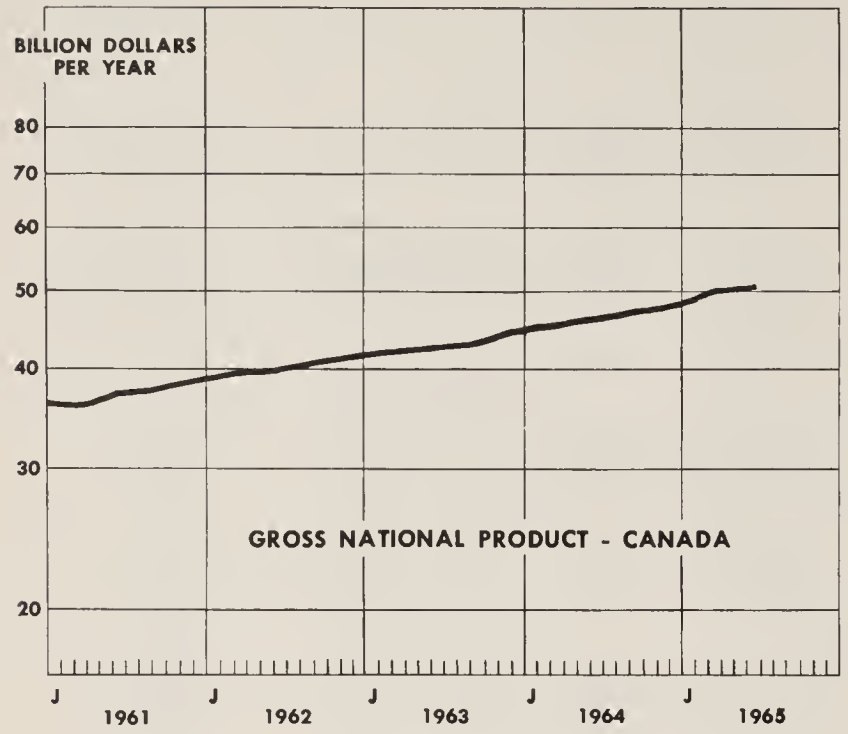
[2] Entered new market through this acquisition.

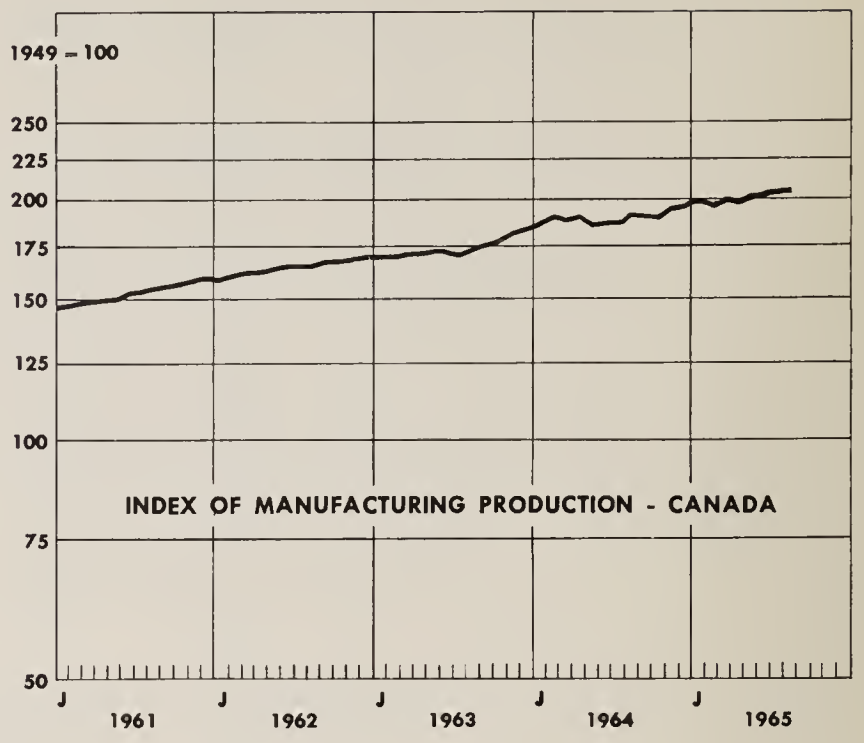
ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

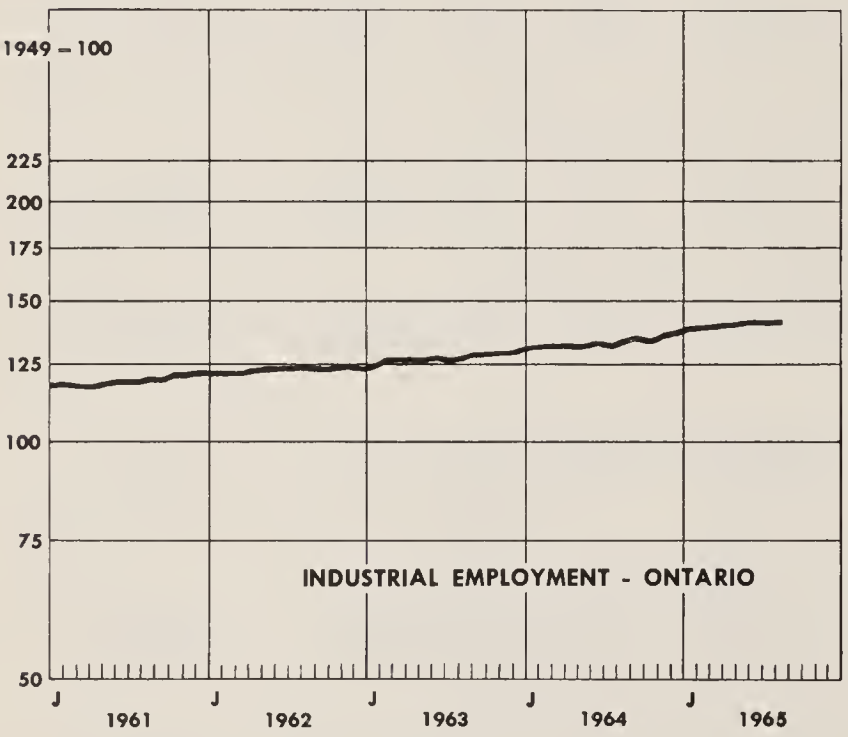
(* Figures for Canada)

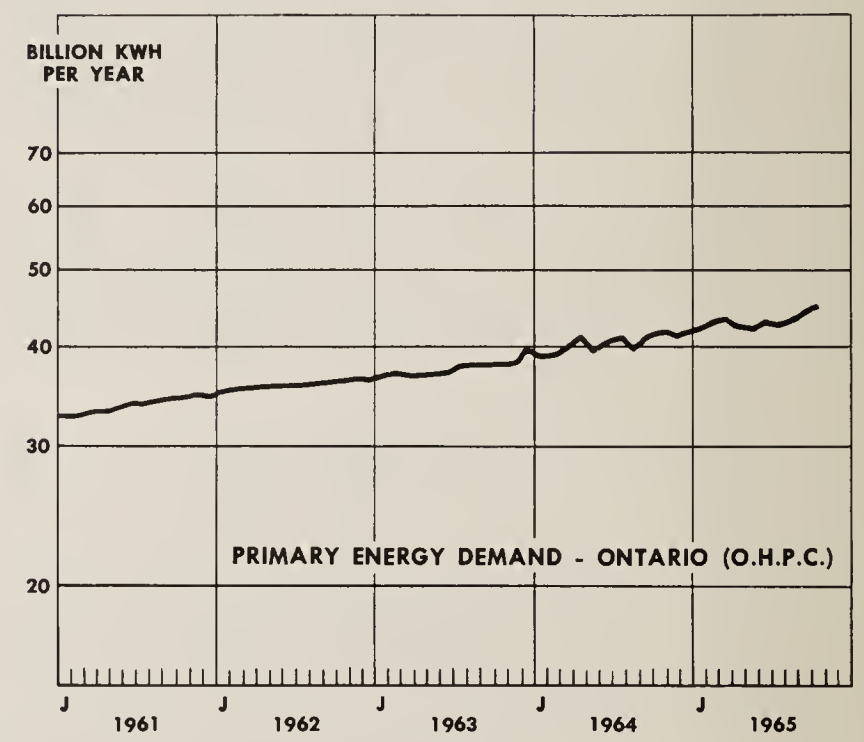
		1964				1965									
LEADING INDICATORS		September	October	November	December	January	February	March	April	May	June	July	August	September	October
Average Weekly Hours Worked in Manufacturing	(No.)	41.2	41.4	40.8	41.1	41.0	40.3	41.7	41.5	41.0	41.3	40.9			
New Dwelling Unit Starts	(No.)	4,469	5,209	6,183	5,138	4,107	5,815	5,353	3,848	5,010	5,806	4,770	7,377	4,464	
Business Failures	(No.)	77	93	59	78	90	77	130	67	87	65	62	83	79	70
Business Failures - Liabilities	$ Million	6.3	6.9	3.1	2.1	3.4	10.3	8.9	4.0	5.3	4.6	4.0	20.7	9.5	2.6
New Orders in Manufacturing*	$ Million	2,696	2,689	2,721	2,780	2,684	2,793	2,870	2,827	2,834	2,829	2,849	2,865		
Housing Contracts	$ Million	54.7	54.4	70.8	62.5	67.9	48.1	57.9	67.3	53.7	70.9	76.2	59.1	44.3	56.6
Business Industrial and Engineering Contracts	$ Million	76.9	86.1	83.1	117.9	113.5	80.3	143.9	109.3	117.9	135.9	127.8	115.0	155.7	98.1
Money Supply*	$ Million	17,517	17,391	17,502	17,610	17,855	18,047	18,271	18,575	18,758	18,791	19,229	19,619	19,674	19,726
T.S.E. Index - 77 Stocks	1956=100	169.1	169.7	168.5	165.6	170.9	172.8	170.7	171.1	169.5	163.0	163.9	166.8	171.4	174.2
COINCIDENTAL AND LAGGING INDICATORS															
New Dwelling Unit Completions	(No.)	4,287	3,806	3,432	3,236	3,667	3,727	8,392	7,115	4,518	4,019	2,153	4,075	3,269	
Average Hourly Earnings in Manufacturing	$	2.16	2.14	2.14	2.15	2.19	2.20	2.23	2.23	2.22	2.23	2.23			
Gross National Product*	$ Million	47,392	- - - - - - - - - - -		48,016	- - - - - - - - - - -		50,040	- - - - - - - - -			50,948			
Cheques Cashed in Clearing Centres	$ Million	3,887	3,820	3,678	3,765	3,773	3,869	3,981	4,127	4,211	4,097	4,184	4,634		
Retail Trade	$ Million	628	630	625	624	617	631	641	659	672	679	672	669		
Labour Force	000's	2,564	2,561	2,564	2,565	2,614	2,590	2,598	2,597	2,603	2,635	2,634	2,641	2,600	2,586
Employed	000's	2,484	2,467	2,491	2,489	2,543	2,525	2,540	2,524	2,531	2,553	2,561	2,572	2,531	2,539
Unemployed	000's	80	94	73	76	71	65	58	73	72	82	73	69	69	47
Unemployed as % of Labour Force	%	3.1	3.7	2.8	3.0	2.7	2.5	2.2	2.8	2.8	3.1	2.8	2.6	2.7	1.8
Wages and Salaries	$ Million	804	798	806	808	825	823	843	849	854	861	868	873		
Industrial Employment	1949=100	134.7	133.6	136.1	136.8	137.9	138.2	139.3	139.8	140.1	140.2	140.7	140.5		
Total Industrial Production*	1949=100	214.4	215.1	220.9	221.1	224.3	223.1	226.7	225.5	225.4	225.9	228.5	231.4		
Total Manufacturing		190.2	189.1	194.5	194.4	197.2	195.9	199.4	198.2	200.3	200.2	203.1	204.1		
Non-Durables		185.0	187.1	191.0	192.7	191.4	189.8	188.9	189.3	193.2	190.9	194.8	195.5		
Durables		196.3	191.4	198.6	196.4	203.9	203.1	211.8	208.6	208.5	211.1	212.8	214.1		
Mining		315.3	326.7	341.2	338.1	348.3	343.3	347.5	348.7	332.7	336.9	339.4	350.4		
Electric Power and Gas Utilities		416.1	426.9	421.8	434.1	429.6	437.4	441.8	435.8	431.8	433.5	431.7	449.8		
Primary Energy Demand (Annual Rate)	BKWH	41.08	41.81	41.29	41.72	42.13	42.86	43.46	42.52	42.14	43.06	42.59	43.67	44.51	44.98
ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED															
Domestic Exports*	$ Million	724.0	669.9	706.5	714.1	569.2	538.3	685.5	645.0	745.7	717.6	770.4	685.7		
Imports for Consumption*	$ Million	616.3	636.8	673.2	656.1	559.6	551.1	730.0	698.4	737.1	795.1	732.4	659.4		
Foreign Exchange Reserves*	US $ Million	2,625	2,687	2,743	2,674	2,668	2,649	2,554	2,567	2,499	2,480	2,492	2,598	2,614	2,644
Prices, Industrial Materials*	1935-39=100	258.8	258.0	258.5	256.2	256.7	255.3	256.3	256.6	258.5	260.4	259.5	260.9	260.4	261.6

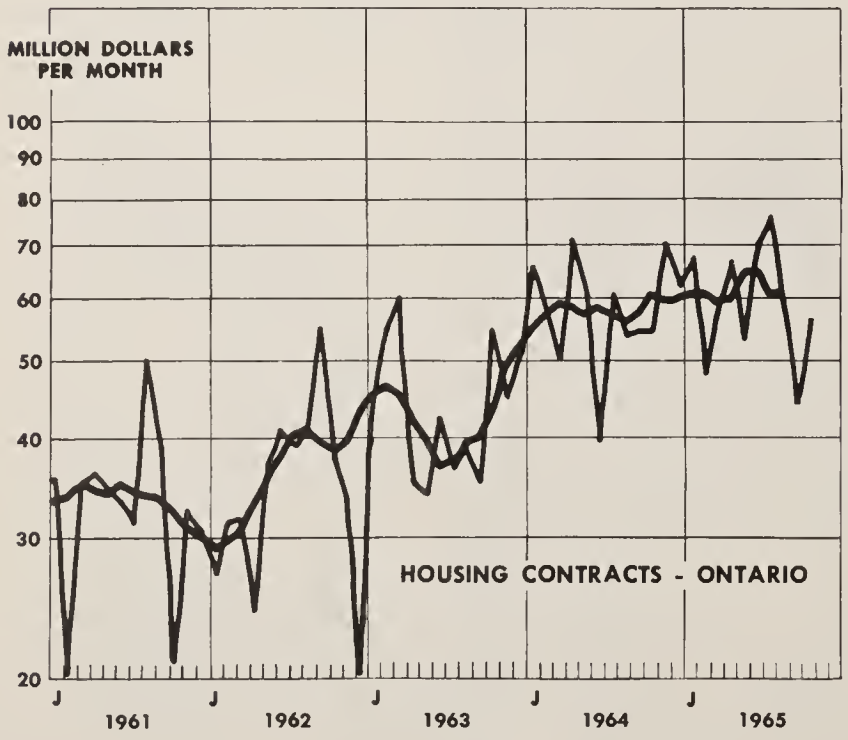
ECONOMIC INDICATORS — SEASONALLY ADJUSTED

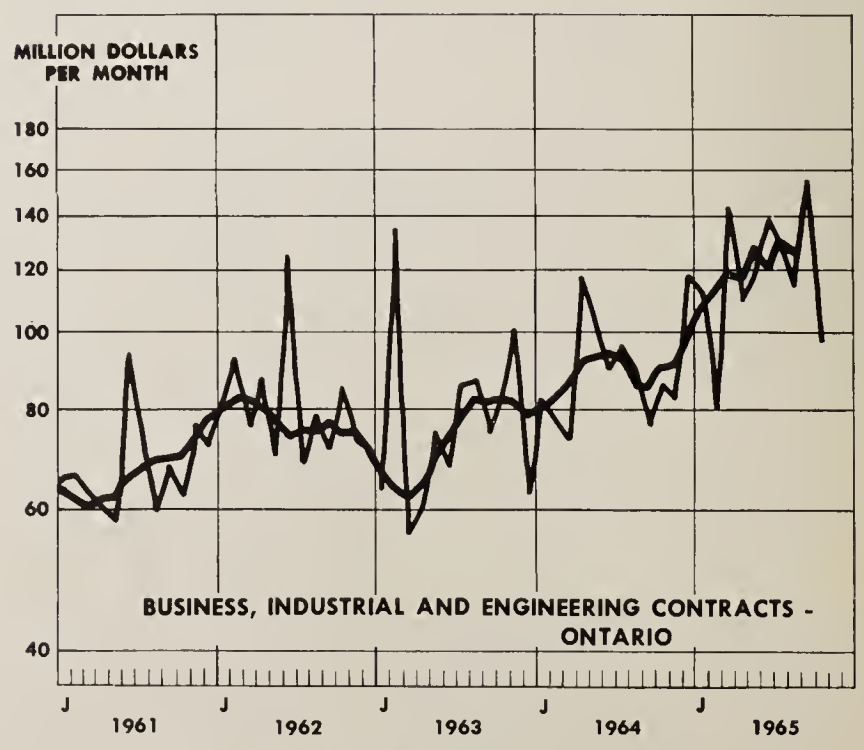




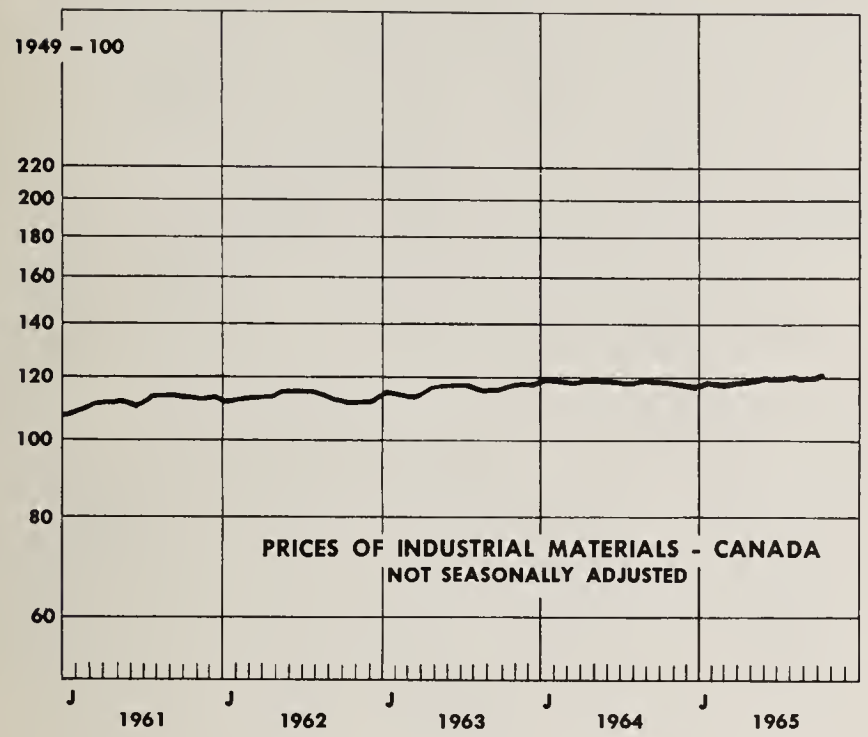


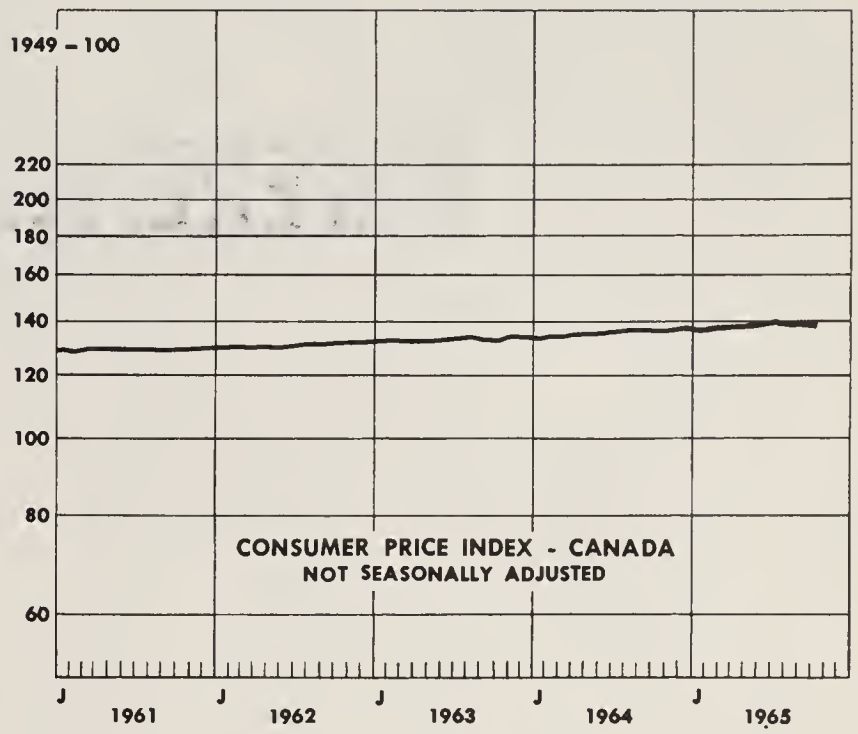


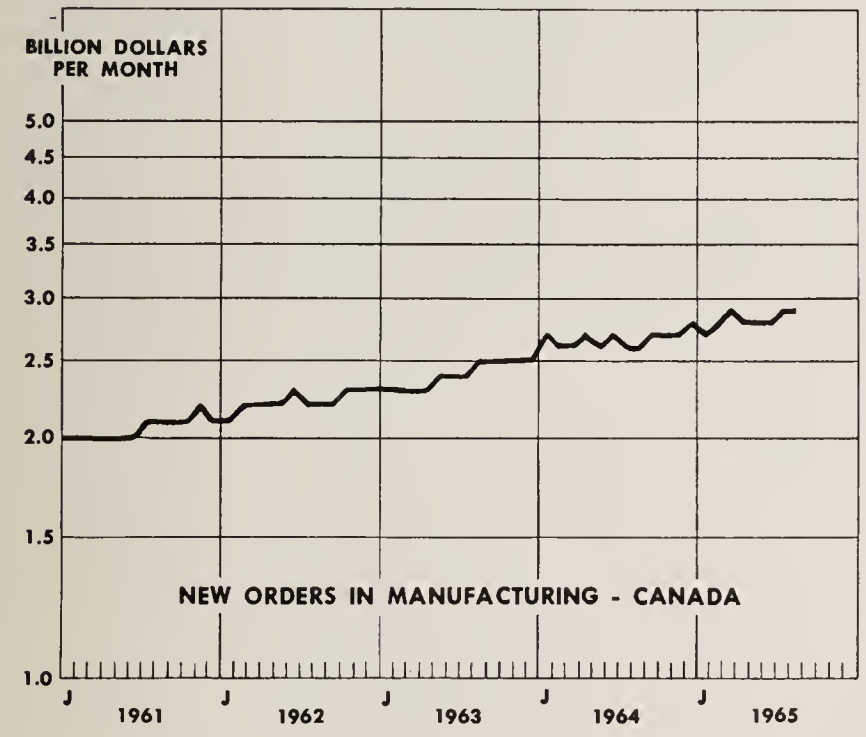


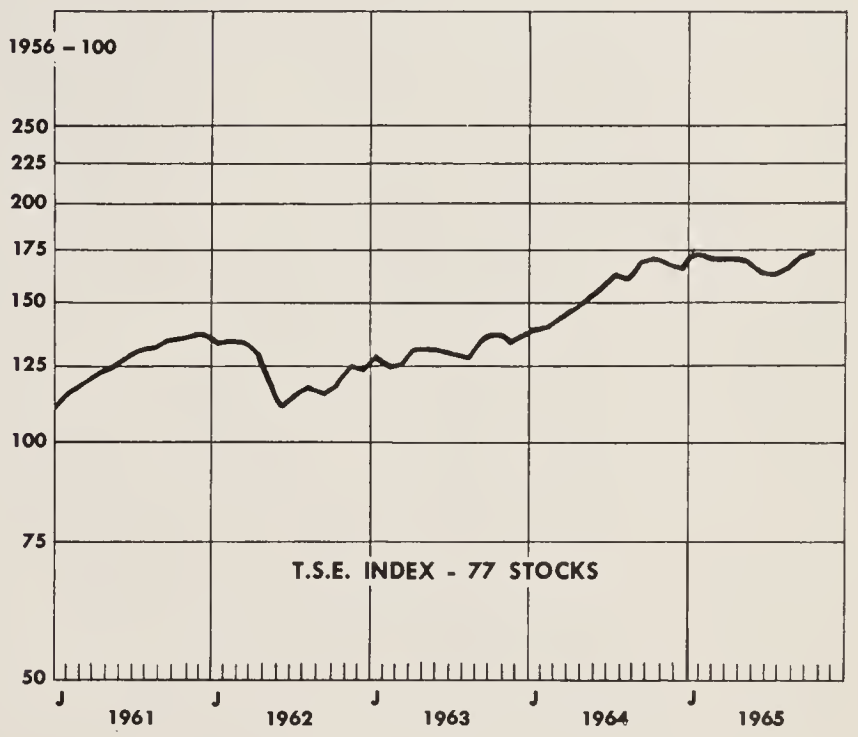


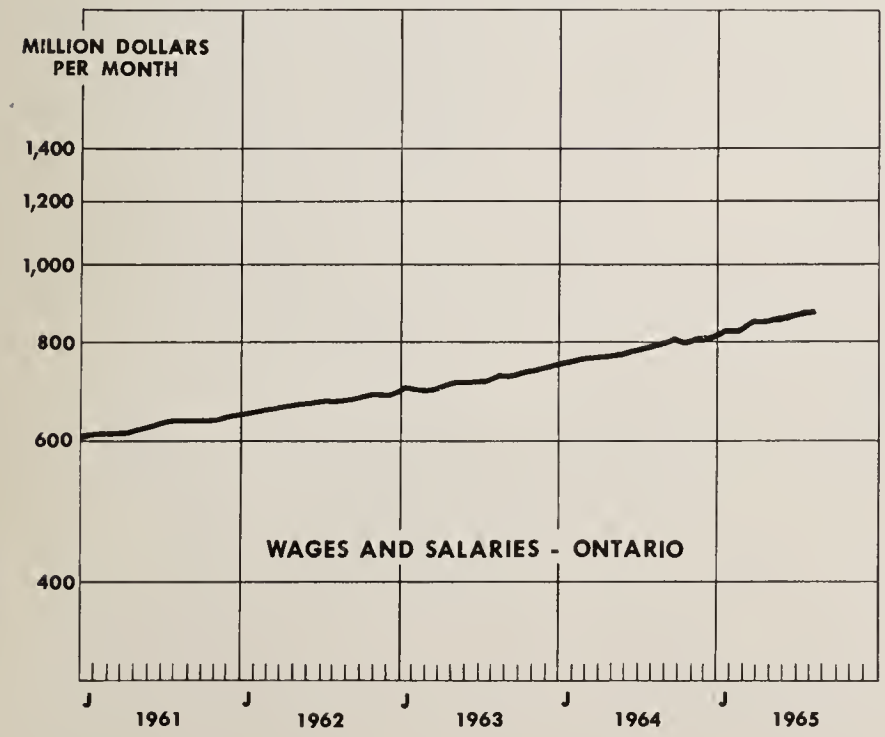
ECONOMIC INDICATORS—SEASONALLY ADJUSTED

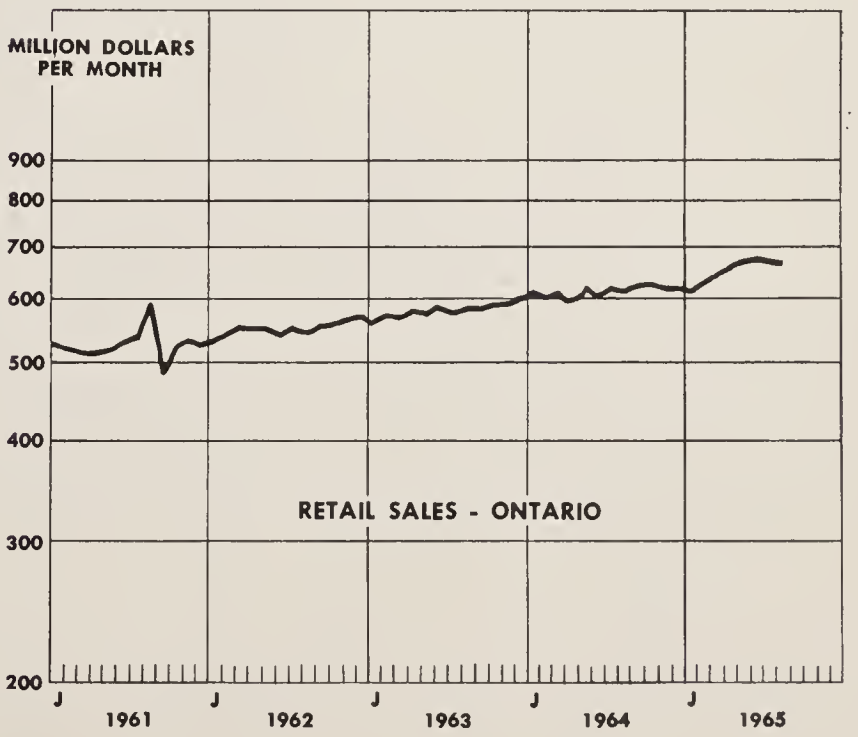












REFERENCE COPY

REFERENCE COPY
DEPARTMENT OF ECONOMICS
JAN 31 1966
LIBRARY

ONTARIO ECONOMIC REVIEW

DECEMBER 1965
VOL. 3
NO. 8

HA
747
0656
1965
VOL.3
NO.8

DEPARTMENT OF ECONOMICS AND DEVELOPMENT

Hon. Stanley J. Randall, Minister

Stuart W. Clarkson, Deputy Minister

Ont. Ministry of Treasury, Economics & Intergovernmental Affairs
MAR 11 1981
81/764
LIBRARY

CONTENTS

The Ontario Economy: Annual Review 1965 1

Significant Events of 1965 3

Gross Provincial Product 5

Foreign Trade 5

Manufacturing Production 6

Construction 7

Finance 7

Employment 8

Income 8

Sales 8

Mining 9

Agriculture 9

Forest-Based Industries 10

Indicators and Charts 11

The Ontario Economic Review *is prepared and edited monthly in the Economics Branch of the Department of Economics and Development and is available free of charge. The review is intended to provide current information on economic activity in Ontario and to act as a forum for the results of research in the public service on matters affecting the Ontario economy. The signed articles reflect the opinions of their authors and do not necessarily represent the views of the Economics Branch. All correspondence should be directed to the Editor,* Ontario Economic Review, *Economics Branch, Department of Economics and Development, 950 Yonge St., Toronto 5.*

THE ONTARIO ECONOMY

ANNUAL REVIEW

1965

One adjective best describes the Ontario economy in 1965: booming.

For the fifth consecutive year Ontario enjoyed substantial economic growth. Old records fell in 1965 as new all-time highs were established in the levels of employment, income and industrial production. Ontario's labour force passed the 2.6 million mark. The unemployment rate dropped to the lowest level since 1956. And estimated *per capita* personal income rose to a record $2,264. For Ontario consumers it meant a year for record purchases of automobiles and a wide variety of other consumer goods. It also meant the highest level of prosperity ever enjoyed in the province.

Total growth, measured by the change in Gross Provincial Product, was an estimated 9.1 per cent in 1965. This represented the change in the total value of goods and services produced in Ontario. Approximately six per cent was real growth, or an actual change in the volume of production. The remaining three per cent represented an increase in prices – the largest increase of the current expansion. Higher prices reflected the impact of cyclical downturns in cattle and hog production, adverse weather for fruits and vegetables, the federal sales tax, and, more generally, the reduction of slack in the economy and the build-up of pressures on existing supplies. (The last two are characteristics typical of an economy operating near full capacity.) Toward the end of the year, however, there were indications that price increases were moderating, leading to the expectation that 1966 would see a smaller price rise.

In Canada one out of every five dollars worth of goods and services produced is exported. Consequently a good year for Canadian exports means a good year throughout most of the economy. During 1965, Canadian merchandise exports including re-exports reached a level of $8.65 billion, 4.2 per cent greater than in 1964. While this increase was not as impressive as the 19 per cent increase experienced in 1964, the higher level of exports did reinforce business confidence throughout Canada. For Ontario, the nucleus of manufacturing production in Canada, exports played a vital role. Impressive increases in secondary manufacturing exports – particularly in the automotive field – increased incomes and employment, and encouraged investment in the province.

That, in addition to the generally favourable economic climate created in 1964, did much to keep domestic investment at a high level. With income and consumer demand rising rapidly, and prospects for further increases very good, business investment – particularly in durables manufacturing – rose markedly in 1965. Total capital investment in Ontario rose an estimated 20 per cent to a level of about $4.4 billion. Business investment in plant and equipment contributed most to the total, with construction investment quite heavy. The result was increased productive capacity, generally keeping abreast with the growing requirements dictated by rising consumer demand. Throughout the year the manufacturing capacity-utilization ratio came closer to optimum, raising productivity and profits, and encouraging further expansion. The investment boom, free of any major bottlenecks, generated further increases in income. These in turn quickly diffused throughout the economy.

Two particular areas of activity were highlighted during the year. These were the construction indus-

try and the durables manufacturing group of industries. The value of construction contract awards in Ontario rose by 19.1 per cent, mostly because of the increase in business construction. Throughout the year durables manufacturing remained about 11 to 12 per cent higher than it had been one year earlier. Employment in construction was about 12 per cent higher throughout the year, in durables manufacturing about eight per cent.

There were three stimuli in 1965 which encouraged growth in these two areas, as well as in the economy as a whole.

One of the most significant was the rise in the American growth rate. To meet the requirements for growth, Americans increased their demand for Canadian resources, particularly mineral, wood and paper products. Canada's supplying industries in turn used the income derived from their sales to acquire the durable goods produced in Ontario. Prosperity in the United States also meant a market yet more receptive to Ontario's manufactured exports. Sales missions promoted by the Ontario Department of Economics and Development enjoyed greater success than ever before.

The second stimulus was the increase of wheat and flour exports to communist countries, giving the prairie provinces additional income. With that income effective demand was created for Ontario products. To modernize and expand agricultural production facilities, new agricultural equipment was purchased. Almost all of it was produced in Ontario. Increased affluence led to the purchase of more automobiles — almost all from Ontario. In fact, a very substantial portion of all consumer goods came from this province.

The third stimulus to growth was in the nature of federal and provincial economic policies. By following expansionary policies throughout most of the year, the two levels of government permitted economic growth to continue.

A few other less basic, but still noteworthy stimuli to growth could be cited. One was the auto industry strike in the United States late in 1964; this had the effect of pushing Ontario's automobile production and sales into 1965. Another was the extension of steel industry negotiations in the United States, extending the period of inventory accumulation. This drove up incomes and demand in that country, at the same time drawing in raw materials from Canada and creating buoyant conditions here. The better-than-average wheat crop, giving farmers additional income, was yet another. Finally, there was the stability of foreign exchange reserves in the face of a larger current account deficit. The chartered banks, drawing on their U.S. dollar deposits in Europe, provided the financing for about one-half of Canada's current account deficit. Free of the need to defend our balance of payments, the Bank of Canada was able to pursue a credit policy related to domestic capacity. This ultimately served the purpose of helping to promote adequate economic growth.

The necessity of promoting balanced growth in the economy was one of the important points made in the *First Annual Review of the Economic Council of Canada*. By establishing guidelines for growth to 1970, the Council provided specific objectives toward which economic policy could be directed. A comparison of actual performance with the growth objectives set down in the *Report* could thus give some indication of the adequacy of existing policy.

Specifically, the Council stated that it was possible and necessary to expand output 5.5 per cent each year from 1963 to 1970. It further stated that unemployment was to be reduced to three per cent of the labour force by 1970. At the same time employment was to be increased 3.1 per cent annually — creating 1.5 million new jobs over that period. Output per man-hour and per person employed was to grow at annual rates of 3.0 per cent and 2.4 per cent respectively. To meet these objectives exports were to increase 5.3 per cent each year. Secondary manufacturing exports were to double in the seven year period, increasing 10 per cent each year. Housing needs and plant and equipment requirements meant that business investment had to rise nine per cent each year.

The. performance of the Canadian and Ontario economies in 1964 and again in 1965 demonstrated that much progress was being made in reaching the 1970 objectives. In only two years, secondary manufacturing exports rose by 66 per cent, reaching two-thirds of the objective for 1970. In 1965 productivity rose by an estimated three per cent. Canada's unemployment rate dropped from 5.5 per cent in 1963 to 3.9 per cent in 1965; Ontario's declined from 3.8 per cent to 2.5 per cent in the same period.

Actually, Ontario experienced a *shortage* of labour in 1965, particularly of skilled workers. To meet this problem and to generally improve productivity, the Province of Ontario expanded its vocational centres and programs for worker retraining and education. In addition it set up plans to establish institutes of technology. To upgrade skills it undertook, in co-operation with business, a program of on-the-job worker training. So that an adequate supply of skilled labour would be available soon, it called for increased immigration.

Significant Events of 1965

The year 1965 was highlighted with several events which had a bearing on the Ontario economy. Some of these — both isolated events and events of a more substantial nature — are included below.

Automotive Agreement

On January 15, 1965 the Automotive Free Trade Agreement between Canada and the United States was signed by the heads of the two countries. Under its terms Canadian motor vehicles and original equipment parts were permitted duty-free entry into the United States; in exchange Canada removed its duty on imported motor vehicles and parts used in their manufacture. The Agreement went into effect on January 18, 1965.

The Agreement grew out of the desire to improve trade in motor vehicles and parts, and help correct a chronic Canadian trade imbalance with the United States. As consumer of 7.5 per cent of North America's total automotive ouput but producer of only four per cent, Canada had been faced with persistent automotive trade deficits. In 1964 this deficit was almost $600 million.

This was not the first attempt to correct the situation. In 1962 an incentive plan had been introduced permitting the duty-free import into Canada of automatic transmissions and parts and stripped engines in amounts equivalent to the auto companies' exports of Canadian-made parts. However, this plan met with opposition from American auto parts producers who claimed that it created a Canadian export subsidy. It was argued that such imports from Canada should be subject to countervailing duties. Attempts to reconcile this dispute without harming Canadian interests ultimately led to the Automotive Free Trade Agreement.

Under the Agreement only motor vehicle manufacturers and parts makers producing components on order from vehicle manufacturers were permitted to import duty-free into Canada. To qualify, a manufacturer had to produce vehicles in the same ratio to his motor vehicle sales in Canada as existed during the period August 1, 1963 to July 31, 1964; and he had to maintain at least the same Canadian "value added" in his Canadian vehicle production as existed in that base period.

The effect of the Agreement was to stimulate automobile production and open up a much larger total market for Canadian producers, enabling them to achieve lower cost through a larger volume of production. When the Agreement was signed, private assurances had been given that by 1968 the value of Canadian motor vehicle production would be $260 million a year more than what it otherwise would have been. Generally, it was expected that over 20 thousand new jobs would be created by that time.

In keeping with this growth the major automobile producers announced vast expansion programs during 1965. Ford Motor Company of Canada announced the $50 million retooling, realigning and modernization of its engine and foundry plant at Windsor, the $13.3 million modification and re-equipment of its Oakville passenger car assembly plant, and the construction of a $25 million truck plant in Oakville. Most significant was its announcement of plans to construct a $65 million automobile plant at Talbotville, located between London and St. Thomas. General Motors revealed plans for a new 625,000 sq. ft. trim plant in Windsor and an 850,000 sq. ft. truck plant at Oshawa. Chrysler spoke of a $7 million addition to its assembly plant at Windsor, increasing its capacity by one-third. American Motors planned a $2.5 million engine plant at Brampton.

Parts producers too revealed plans for expansion. These included a new plant in Hamilton for interior trim, door panels, etc., an engine valve-lifter plant in Wallaceburg, a $1.5 million electrical wiring systems plant at Ingersoll, and a $12-14 million frame plant in Kitchener. A $7 million expansion was planned for an engine plant at St. Catharines, while in Thorold Township there was to be a $3 million expansion of a frame plant and a $1 million parts plant expansion. In Windsor $6.9 million was to be spent on a wheel plant.

Tax Reduction

In April the Minister of Finance brought down the budget for the year 1965, introducing a 10 per cent reduction in personal income tax (with a maximum reduction of $600 each year), effective July 1, 1965.

For the average man earning $5,000, with a wife and two children, the reduction was to be about $30 in a full year.

In dollar terms the reduction for the second half of 1965 was estimated at $170 million; for a full year it was estimated at $265 million. The full amount was expected to be put back into the economy in the form of private spending to stimulate further expansion. The action of the Minister of Finance followed the line of thinking of the Economic Council of Canada in emphasizing consumer spending to encourage employment and capital spending.

Atlantic Acceptance

One of more spectacular events in the financial community in 1965 was the collapse of the Atlantic Ac-

ceptance Corporation. The loss, estimated at about $34 million, had the effect of undermining confidence, and this was reflected in a noticeable stock market decline.

To ease the problem of inadequate funds in the money market, the Bank of Canada added to the money supply, thus providing the chartered banks with additional cash reserves. This had the effect of protecting the near-bank system of credit; but it did increase the money supply at a time when the Bank might have been expected to restrain such a rise. Ultimately the money supply in 1965 increased by over $2 billion.

Designated Areas

In keeping with the new emphasis on regional development, the Federal Government passed the Area Development Incentives Act in June 1965. (This Act replaced one which had been established in 1963.) Under the new Act manufacturing and processing industries establishing new facilities or expanding existing facilities were eligible for development grants from the Federal Government, so long as they established in specifically designated areas. The areas, whether National Employment Service (NES) areas, counties or census divisions, were selected according to various criteria, but fundamentally because of low income or high unemployment rates.

In August full details under the Area Development Program were announced, establishing ten designated areas in Ontario. Along with the specific criterion used in each case these were: Bracebridge and Parry Sound NES areas (low average family income); Sturgeon Falls NES area (high unemployment); Elliot Lake NES area (declining employment); Owen Sound, Collingwood and Midland NES areas (recognized as an economic region with low average family income); and Haliburton County and the Districts of Manitoulin and Parry Sound (contiguous areas with low average family income).

During the latter part of the year several industries announced their intention to establish in a designated area. Included were two projects in Midland: RCA Victor revealed plans for the construction of a colour television tube plant, while Motorola announced that it would build an automobile radio plant. Also, Goodyear planned to build plants in Collingwood and Owen Sound.

Wheat Sales

The announcement of new wheat sales to the U.S.S.R. in August was significant for the Canadian economy as a whole. At that time the Minister of Trade and Commerce stated that the new sale of 187 million bushels of wheat, valued at $450 million, could bring 1965 wheat exports to a level that would add $1.2 billion to the Canadian economy. In addition, delivery of part of the wheat in the contract before the end of 1965 promised to assist Canada's trade balance, which had not displayed the same vigorous growth in 1965 as it had in 1964.

However, even with part of the deliveries completed in 1965, the current account deficit was still an estimated $1 billion.

Restriction of Direct Investment

Early in December the Government of the United States, in announcing measures to improve its balance of payments, stated that Canada was no longer to be excluded from the voluntary quotas placed on the direct investment of American firms. (The change in the status of Canada was partly due to its having acquired a foreign exchange reserve balance in excess of the amount agreed upon with the United States in 1963.) It was requested that such firms limit investment in plant and equipment in foreign countries in 1965 and 1966 to 90 per cent of the total for 1962-64.

The reaction in Canada to this announcement, while cautious, was not unduly pessimistic. While opinion varied as to whether there would be a significant cut-back in American direct investment, it was generally held that 1966 would see a substantial increase in total business investment in plant and equipment in Canada. As for foreign capital requirements, long-term borrowing from the United States was expected to remain an important source of foreign capital, so long as Canada adhered to the limits set for exemption from the U.S. Interest Equalization Tax.

Higher Interest Rate

Coming at the same time was the announcement of an increase in the United States official bank discount rate, from 4.0 per cent to 4.5 per cent. The immediate result was the increase in the Canadian bank rate from 4.25 per cent to 4.75 per cent. The action of the central banks in the United States and Canada thus set off a controversy regarding the advisability of restricting credit and making money tighter. However, it was generally accepted that, provided no further drastic changes were made, there would be no harmful effect on the United States and Canadian economies. Expansion was expected to go on, perhaps at a more restrained rate.

Gross Provincial Product

Ontario's Gross Provincial Product in 1965 reached a record level of $20.7 billion, approximately $1.7 billion or 9.1 per cent higher than in 1964. Of this increase about three per cent was accounted for by an increase in prices. Real growth, at approximately six per cent, was not as high as Ontario's 7.1 per cent real growth in 1964, or Canada's 1964 real growth of 6.5 per cent. However, it did surpass the objective level set by the Economic Council of Canada.

Table I shows the growth of Ontario's Gross Provincial Product over the period 1953 to 1965.

TABLE I

ONTARIO GROSS PROVINCIAL PRODUCT AT MARKET PRICES, 1953-1965*

	Current Dollars	Annual Change	Price Index	Constant 1957 Dollars
	$ Billion	*%*	*1957 = 100*	*$ Billion*
1953	9.8		90.9	10.8
1954	10.1	3.1	93.1	10.8
1955	10.9	7.9	93.5	11.7
1956	12.0	10.1	97.1	12.4
1957	13.0	9.3	100.0	13.0
1958	13.4	3.1	101.9	13.2
1959	14.3	6.7	104.5	13.6
1960	14.7	2.8	106.1	13.9
1961	15.2	3.4	106.8	14.3
1962	16.4	7.9	108.4	15.1
1963	17.4	6.1	110.3	15.7
1964	19.0	9.2	112.8	16.9
1965*	20.7	9.1	116.0	17.9

*Preliminary estimate.
Source: Ontario Department of Economics and Development.

In general, Ontario's Gross Provincial Product has accounted for just over 40 per cent of Canada's Gross National Product.

Foreign Trade

Total Canadian merchandise exports, including re-exports, rose by an estimated 4.2 per cent to a level of $8.65 billion in 1965. The most recent data available, covering the period January to October, did not indicate as large an increase as that; however, the inclusion of substantial wheat and flour exports at the end of the year would have brought the total up to the estimated level. Still, this gain was only moderate in the light of a 19 per cent increase in exports during 1964. In that period had been included the bulk of wheat shipments to communist countries, shipments which had been contracted earlier.

Table II indicates that exports to the United States increased more than exports to any other country, rising 10.5 per cent. In 1965 over 56 per cent of Canada's exports went to that country. The United Kingdom accounted for 13.4 per cent – down 1.1 per cent from 1964. The European Economic Community took more than seven per cent.

TABLE II

CANADA MERCHANDISE EXPORTS, 1963-1965*

	1963	*1964*	*1965**	*1964/63*	*1965*/64*
	$ Million			*% Change*	
U.S.A.	3,913	4,435	4,900	13.3	10.5
U.K.	1,015	1,207	1,160	18.9	−3.9
E.E.C.	487	565	612	16.0	8.3
Sub-total	5,415	6,207	6,672	14.6	7.5
All others	1,565	2,097	1,978	34.0	−5.7
Total	6,980	8,304	8,650	19.0	4.2

*1965 figures estimated by the Ontario Department of Economics and Development.
1963-64 data source: DBS, *Canadian Statistical Review.*

In spite of the only limited gains of overall Canadian exports during the year, secondary manufacturing exports grew impressively. Based on January to October data, these exports showed an increase of 15.4 per cent over the corresponding 1964 figure. Because Ontario produces about one-half of Canada's manufacturing output, the growth of such exports was a particular boon to the province. It did much to stimulate economic growth in Ontario.

Certainly the most significant contributor to the good showing of secondary manufacturing exports was our export of automobiles and parts, related directly to the Automotive Free Trade Agreement. Accounting for almost one-quarter of Canada's secondary manufacturing exports, they almost doubled within the period of one year.

TABLE III

PER CENT INCREASE IN CANADIAN AUTOMOTIVE EXPORTS, 1965/1964

(January-October Periods)

	% Change, 1965/64
Passenger autos and chassis	105.8
Other motor vehicles	22.3
Motor vehicle engines and parts	61.7
Motor vehicle parts, except engines	102.2
Total motor vehicles and parts	89.4

Source: DBS, *Summary of Exports,* October 1965.

Not as significant in quantity but still important were exports of combine reaper-threshers and parts, up almost 25 per cent, and communications equipment, up more than 40 per cent.

A factor instrumental in making the merchandise trade balance somewhat disappointing in 1965 was the rising value of merchandise imports. Whereas exports expanded only slowly, imports increased at a considerably higher rate. In the January to August period of 1965, total merchandise imports – at a level of $5.5 billion – were 11.4 per cent higher than in the corresponding 1964 period. Major reasons for this were the record levels of investment in machinery and equipment (increasing such imports by about nine per cent) and the rise in motor vehicles and parts imports.

Stimulated by the Automotive Agreement and by increased affluence in Canada, imports of motor vehicles in the first eight months were 50 per cent higher in 1965 than they had been in 1964. Engines and parts were up over 15 per cent. To a considerable extent the high level of imports reflected the general prosperity prevalent throughout most of Canada.

Manufacturing Production

Manufacturing production rose by an estimated eight per cent in 1965. By far, the more significant contributor was durables manufacturing, increasing by over 12 per cent. Non-durables rose approximately four per cent.

With almost all of Canada's motor vehicle production coming from Ontario, the growth of this production played a large part in the good showing of Ontario durables manufacturing. In 1965 over 854 thousand motor vehicles were produced, an increase of some 27 per cent over the previous year. Automobile production alone was approximately 710 thousand units.

The demand for other products such as refrigerators, television sets and radios – fostered by higher incomes – also contributed to the gains in durables production. In addition, heavy investment produced a significant increase in the iron and steel products sub-division of the durables group. Table IV, based on nine month averages, shows the percentage change in manufacturing production from 1964 to 1965.

Ontario's total manufacturing shipments in 1965 were valued at $17,640 million, approximately 52

TABLE IV

ONTARIO INDEXES OF MANUFACTURING PRODUCTION*, 1963-1965

(January-September Averages)

	1963	*1964*	*1965*	*1964/63*	*1965/64*
		1956 = 100		*% Change*	
Total selected non-durables	125.1	136.0	141.8	8.7	4.3
Foods and beverages	119.3	129.0	133.0	8.1	3.1
Rubber products	119.8	134.4	136.3	12.2	1.4
Leather products	118.7	126.3	119.2	6.4	—5.6
Textiles	119.2	131.3	142.0	10.2	8.1
Paper products	121.2	131.8	140.9	8.7	6.9
Printing and publishing	111.8	118.2	121.4	5.7	2.7
Chemical products	155.9	171.0	183.0	9.7	7.0
Total durables	113.3	128.1	141.2	13.1	10.2
Wood products	116.8	124.0	128.5	6.2	3.6
Iron and steel products	116.8	130.5	142.3	11.7	9.0
Transportation equipment	108.5	134.1	154.2	23.6	15.0
Non-ferrous metals	109.2	118.3	128.1	8.3	8.3
Electrical apparatus	109.7	118.7	132.2	8.2	11.4
Non-metallic mineral products	125.4	139.8	148.9	11.5	6.5
Total manufacturing	118.1	131.3	141.5	11.2	7.8

*Excludes clothing, tobacco, products of petroleum and coal, and miscellaneous manufacturing.
Source: Ontario Department of Economics and Development.

per cent of all Canadian shipments. Over 55 per cent of Ontario's shipments were manufactured durables, with an estimated value of $9,870 million. Durables shipments increased by over 12 per cent from 1964 to 1965; in the rest of Canada they grew only 4.9 per cent.

Construction

Activity in Ontario's construction industry – particularly business construction – reflected the optimistic attitudes prevailing in the economy. Anticipating expanding production and capacity requirements, the business community invested record amounts on new buildings and facilities. Throughout the year this type of construction was the most significant.

So intense were the demands made on this industry that skilled labour and materials shortages developed. Wholesale prices for building materials rose over five per cent, while average hourly earnings in the construction industry rose seven per cent. At mid-year the Government of Canada announced that certain of its construction programs were to be postponed in order to ease the situation. The business community was asked to co-operate by similarly delaying construction wherever possible. While pressures remained fairly strong for some time, they did ease somewhat toward the end of the year.

Indicative of the growth of the construction industry was the impressive growth of employment – up between 11 and 12 per cent in Ontario, around eight per cent in the rest of Canada.

Construction contract awards in Ontario reached $2,145.6 million in 1965, an increase of 19.1 per cent over 1964. Throughout most of the year, as well, the value of building permits was about 20 per cent higher than one year earlier. Housing starts, running about 14 per cent higher most of the time, declined relatively in November to cut the gain for the eleven-month period to less than six per cent.

Finance

Canada's Gross National Product rose from $47.0 billion in 1964 to an estimated value of $51.4 billion in 1965, an increase of approximately 9.2 per cent. In real terms this gain exceeded six per cent. Increased capital investment, rapidly rising output in the manufacturing industries, high levels of consumer spending and increased Canadian exports all contributed to this good performance. The resulting higher incomes made available increased savings for domestic capital investment purposes.

New Canadian bond financings amounted to $4.7 billion in 1965, some 2.7 per cent below the 1964 level. Borrowings in the United States, meanwhile, rose by one-third, reaching a level of almost $1 billion. Throughout most of the year U.S. long-term capital flowed into Canada without interruption, both from security issues marketed in the U.S. and from direct investment. But in the last months of the year Canadian access to American capital was restricted. In line with President Johnson's balance of payments program, American subsidiaries curtailed their direct investment, and Canadian borrowers were requested to delay further placements in the New York market.

At the end of November, Canada's holdings of gold and U.S. dollars amounted to $2.665 billion. Contributing to this high level of reserves were the sizeable receipts from wheat sales abroad. To maintain its exemption from the U.S. Interest Equalization Tax, Canada had agreed to hold its official reserves (including credits with the I.M.F.) not appreciably above the July 1963 level of $2.5 billion. Consequently the Bank of Canada announced near the end of the year that, if necessary, it would repurchase Canadian securities marketed in the United States in order to bring our reserve position back into line.

In the latter half of the year there was a movement in the direction of tighter money. The expanding need for funds in both the public and private sectors, coupled with diminishing availability, tended to exert pressures for higher interest rates. These pressures existed for some time prior to the December increase in the U.S. Federal discount rate and in the Canadian rate. Throughout 1965 prices on the Canadian bond market declined steadily as yields rose. An example was a long-term Government of Canada bond priced to yield 4.81 per cent at the end of January. At year-end its price had declined so as to yield 5.48 per cent.

In the first half of 1965 bullishness in the securities market continued unabated, following the trend of recent years. However at mid-May a downward movement began in response to a variety of apprehensions. The market declined further with the collapse of the Atlantic Acceptance Corporation. From an all-time closing high of 178.05 (1956 = 100) on May 14, the Toronto Stock Exchange Industrial Index fell to a 1965 low of 157.11 on July 26. After that, the upward movement was hesitant: the Index closed the year at 168.56, only slightly ahead of the 1965 opening level of 166.04.

The trend toward tighter monetary conditions in the economy, combined with the Atlantic collapse

and more limited access to foreign funds, had a restraining effect on the value of the Canadian dollar. Opening the year at a level of US 93.14 cents, it declined as low as US 92.28 cents before recovering to close the year at US 93.03 cents.

Employment

The economic expansion experienced in the past five years produced very significant changes in the employment picture in Ontario. Unemployment as a percentage of the labour force declined from an average of 5.4 per cent in 1960 to 3.2 per cent in 1964 and 2.5 per cent in 1965. For Ontario the 1965 figure represented the best situation since 1956, and compared favourably with the 1965 Canadian average of 3.9 per cent. On a single-month basis the 1.8 per cent level reached in October 1965 was the lowest since 1953.

Total employment rose by 3.0 per cent in 1965, creating 75,000 new jobs. At the same time the size of the labour force increased from 2,556 thousand in 1964 to 2,614 thousand, an increase of 2.2 per cent.

Table V gives a general idea of the increase in the index of employment in different industrial groups for the Province of Ontario as a whole.

TABLE V

PER CENT INCREASE IN THE INDEX OF EMPLOYMENT IN ONTARIO INDUSTRIAL GROUPS, 1965/1964

(January-September Periods)

	% Change, 1965/64
Forestry	6.5
Mining	2.7
Manufacturing	4.7
Construction	11.0
Transportation, storage and communication	2.8
Public utility operation	0.8
Trade	5.1
Finance, insurance and real estate	4.6
Service	9.3
Industrial composite	5.1

Source: Derived from DBS, *Employment and Payrolls,* September 1965.

Although there were shortages of skilled, managerial and professional workers in certain industries, labour markets in Ontario were generally balanced in 1965. Economic buoyancy considerably reduced unemployment in many areas.

However, this was not the case everywhere in Ontario. Certain urban areas experienced labour surpluses at certain times of the year. At the beginning of 1965 there was a surplus in Bracebridge due to the seasonal decline in tourism — one of its major industries. In February and March, Cornwall was faced with an excessive supply of labour. This was very likely due to seasonal cut-backs in industrial employment. In fact, that area had experienced heavy seasonal unemployment for years, particularly after the completion of the St. Lawrence Seaway. The only other area to experience a labour surplus for a time was Oshawa. August and September lay-offs in the automobile industry, prior to the introduction of the new models, temporarily upset the labour market balance there.

Several centres had labour shortages in 1965. Manufacturing production at Woodstock, enjoying one of its best years, took up the available labour in that centre. An extremely active furniture industry accounted for shortages in Stratford and Listowel. In general the shortages in Stratford and Woodstock were occasioned by high levels of light manufacturing activity in those general areas. In Walkerton it was due to the Douglas Point Nuclear Power Station.

Elsewhere in the province, labour markets were relatively well-balanced, with seasonal factors accounting for any minor divergences.

Income

Labour income in the province increased by about 10 per cent in 1965, due to the combined effects of increased employment and a substantial rise in the average level of wages and salaries. During September, for example, average industrial wages and salaries were almost 4.5 per cent higher than twelve months earlier. The construction industry led with a 9.3 per cent increase; finance, insurance and real estate followed with 5.9 per cent, while mining was up 5.7 per cent. While service industries rose 5.6 per cent, manufacturing industries were reported to be up 3.6 per cent.

On a *per capita* basis personal income in Ontario rose by an estimated 6.6 per cent to a level of $2,264. With Ontario's population in 1965 up 2.2 per cent from the previous year to a level of 6,731 thousand, total personal income was an estimated $15.2 billion.

Sales

Ontario's retail sales in 1965 were over seven per cent higher than in the previous year. Strong increases were noted for motor vehicle dealers (over

13 per cent), variety and selected food and beverage stores (both almost 12 per cent), jewellery stores (over nine per cent), and shoe, hardware, and men's and women's clothing stores (all close to eight per cent). Automobile sales, based on January to October data, were up 12.0 per cent in Ontario compared with an 8.2 per cent increase in the rest of Canada. Aside from rapidly rising incomes, the other factors leading to increased auto sales were rising scrappage rates and increased family formation.

Mining

The total value of mineral production in Ontario rose to $986.2 million in 1965, according to DBS preliminary estimates. This represented an increase of 9.4 per cent over the revised 1964 figure of $901.6 million. Accounting for over 76 per cent of this total value was the value of mineral production, at $780.7 million.

TABLE VI

ONTARIO PRODUCTION OF SELECTED METALS, 1964-1965

	1964	*1965*	*1965/64*
	$ Million		*% Change*
Nickel	267.8	319.8	19.4
Copper	131.5	163.9	24.6
Iron ore	85.6	90.6	5.8
Gold	81.4	73.3	— 9.9
Uranium (U_3O_8)	63.6	49.2	—22.7
Platinum group	25.4	35.7	40.4
Zinc	20.4	18.1	—11.4
Silver	13.9	15.7	12.7
Magnesium	5.6	6.7	19.9
Cobalt	4.3	6.0	40.0
Total metals	701.3	780.7	11.3

Source: DBS, Preliminary Estimates.

Most notable in terms of total value were the significant increases of 19 per cent and 25 per cent in nickel and copper production. The platinum group also displayed a sizeable increase. These three metals were closely associated in the Sudbury ores, and their increases reflected the greatly increased activity in that area. Uranium production declined because of the limited market for it. Gold dropped 10 per cent, largely because of the fixed price for gold, rising production costs and declining economic ore reserves.

Non-metallic minerals declined by 3.1 per cent to a 1965 level of $20.8 million, mainly because Ontario's only major asbestos producer ceased production. On closing its Munro Mine, near Matheson, the Johns-Manville Company converted its mill to testing the company ores from Reeves Township.

Structural materials were valued at $174.9 million, up 3.5 per cent from 1964. Sand and gravel rose 4.0 per cent to a level of $56.8 million, while cement and clay products increased by 8.1 per cent and 6.8 per cent respectively.

New developments in mining included the start of construction of a $40 million iron ore pelletizing complex at the Sherman Mine at Temagami, and a milling and concentrating plant near Timmins. Construction plans announced in 1965 included mining and concentrating facilities near Fort Frances and a $50 million pelletizing plant at Bruce Lake.

Agriculture*

Farmers in Ontario experienced a good year in 1965, increasing cash receipts from the sale of farm products by an estimated 7.5 per cent. Based on this estimate, such receipts exceeded $1 billion for the first time.

1965 was an unusual year with respect to the prices of several products. Strong prices for many farm products in the United States increased prices here, in spite of larger marketings. Based on the index of farm prices for Ontario agricultural products in the first three-quarters of 1965, prices rose by 5.8 per cent.

Production of grain crops increased 7.5 per cent over 1964. All main grain crops were larger with one exception: winter wheat declined by 27 per cent – from 18 million to 13 million bushels – because of a severe winterkill. Barley production rose 34 per cent.

Flue-cured tobacco production rose by 25 million pounds to an estimated total of 162 million pounds. Expected average prices of 60 cents (compared with 55 cents last year) promised to increase farm income by about $25 million. This strength in the market for tobacco was related to the political situation in Rhodesia: normally Rhodesia had been an important supplier of flue-cured tobacco to Western Europe and the United Kingdom.

In livestock and poultry significant increases in marketings were noted. Beef carcass gradings rose 14 per cent, turkey production 20 per cent, and chicken broiler production six per cent. Hog marketings were down for the first eleven months of the year.

In terms of price, all meats in Canada benefited

**Prepared by the Farm Economics, Co-operatives and Statistics Branch, Ontario Department of Agriculture.*

from the strong American market for red meats. The average price of good steers was down 36 cents to a level of about $23. Hog prices throughout most of the year were $5 higher at $31.25; toward the end of the year, however, they rose to a record $43. Turkey prices were below the previous year, while the price of broiler chickens remained slightly higher.

In egg production the extremely low prices at the beginning of the year resulted in a severe cutback in replacement pullets; as a consequence egg production dropped in the autumn and prices increased rapidly.

Milk production for the first nine months increased by 2.2 per cent, while concentrated milk products increased five per cent and cheddar cheese production rose six per cent. The production of creamery butter was one per cent below 1964, leaving the possibility that there would be a short supply in the next six months — a change from the substantial butter surplus that existed two years earlier.

In 1965 wholesale and retail prices of all milk products were higher. Butter rose six per cent, cheese 10 per cent, and skim powder milk 12 per cent.

Ontario fruit production in the past year, with the exception of grapes and plums, was below 1964 levels. Apples and sour cherries declined 19 per cent and 26 per cent respectively. While grape production was good, rising 10 per cent, serious marketing problems were experienced. Because of a heavy American crop, Ontario grape exports were only able to enter the U.S. market at very low prices.

Vegetables for processing were available in good volume, although some frost damage occurred in sweet corn and wax beans. Ontario potato production was approximately the same as in 1964.

Forest-Based Industries

During 1965 Ontario's pulp and paper industry moved ahead strongly, remaining one of the province's five leading manufacturing industries. Newsprint sales rose by approximately five per cent to a level of $214 million, while pulp sales grew by approximately six per cent, reaching a level of $140 million. Canadian newsprint mills operated at a production ratio of 91.4 per cent, the highest since 1957.

The above gains were made possible by a worldwide increase in demand for these items and by Canada's increased penetration of overseas markets. The latter development came about as a result of the growing inability of many European countries — formerly exporters of pulp and paper — to meet even their own rapidly increasing requirements.

The pulp and paper industry sought to cope with the problems occasioned by stable or falling prices and higher raw material and labour costs by intensifying its efforts to develop more efficient production techniques. Notable successes were recorded in the wood-chip pipeline and pulping fields. The developments in the former area were of particular significance since they promised, under favourable conditions, to reduce the cost of woods operations by approximately 50 per cent.

Modernization and expansion plans requiring the expenditure of approximately $120 million were announced by the province's pulp and paper producers during the year. In many cases actual work was not to begin until 1966.

The lumber industry also fared well during the year. Lumber sales increased by almost six per cent, largely as a consequence of the continued province-wide upsurge in construction activity. The value of lumber sales in 1965 was $35 million.

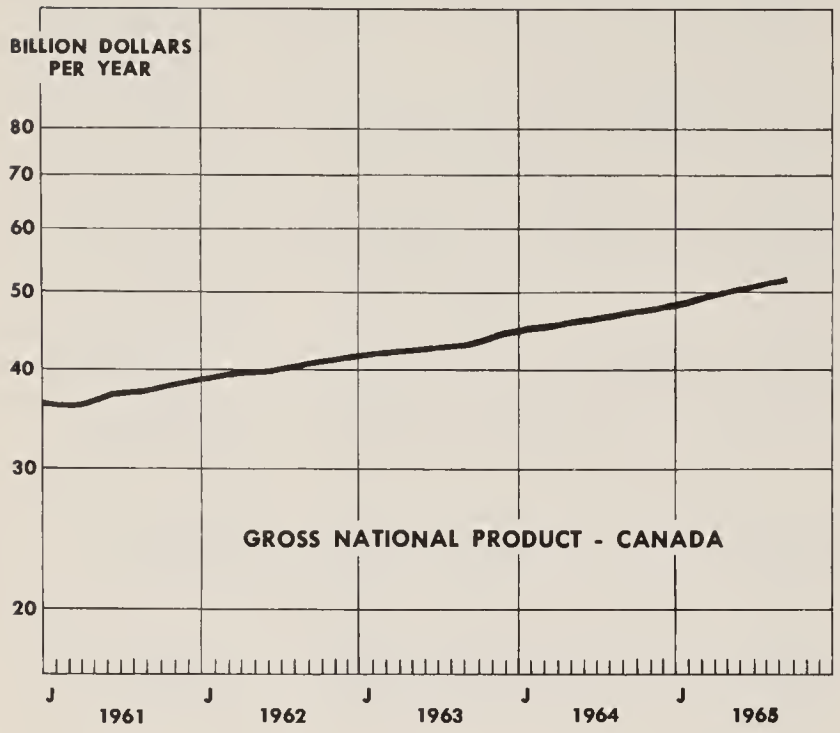
ONTARIO ECONOMIC INDICATORS - SEASONALLY ADJUSTED

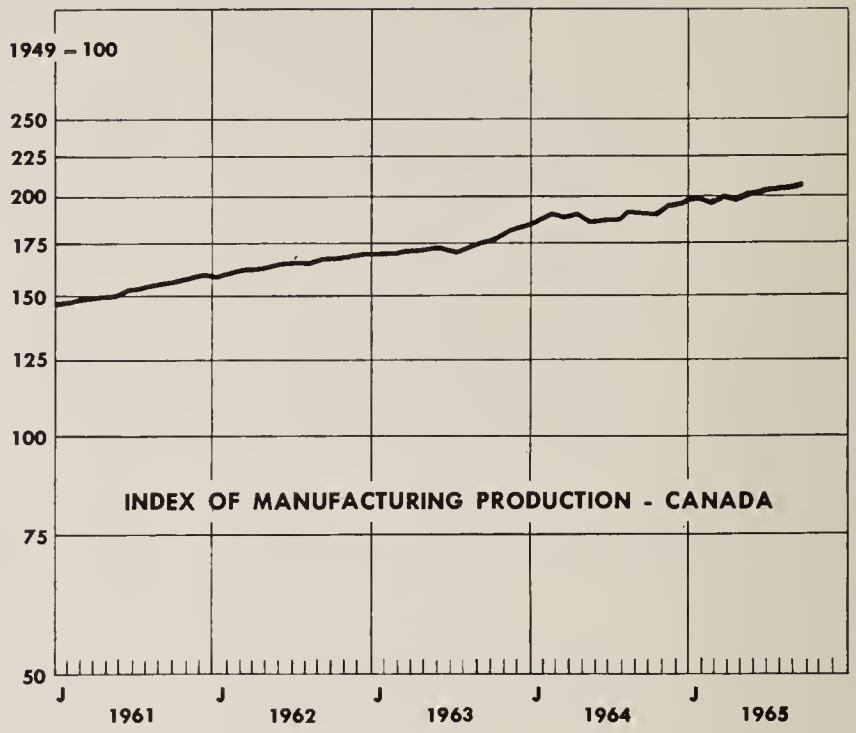
(* Figures for Canada)

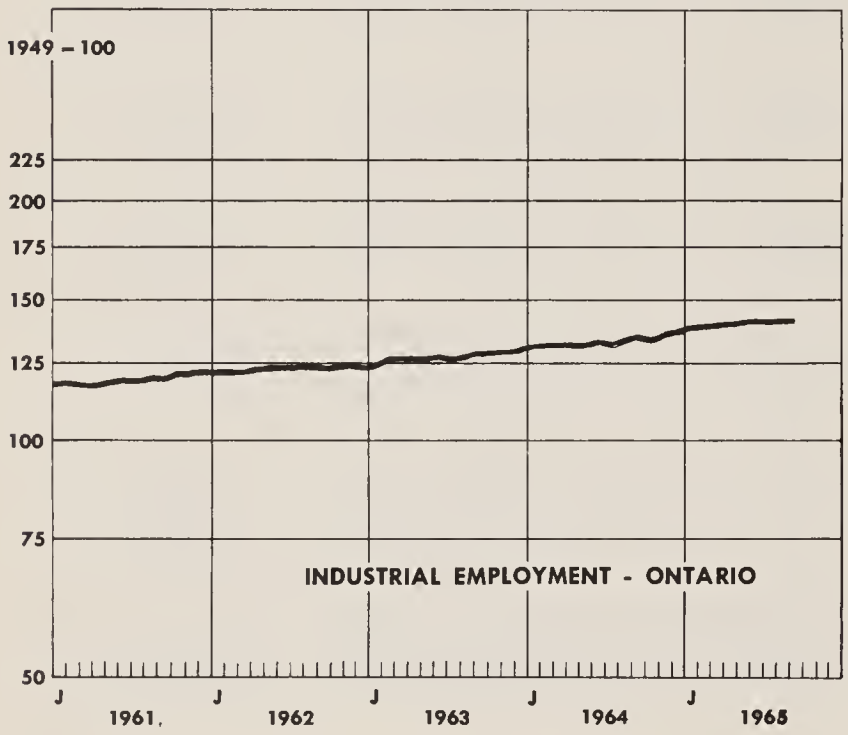
LEADING INDICATORS		1964 Oct	Nov	Dec	1965 Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov
Average Weekly Hours Worked in Manufacturing	(No.)	41.4	40.8	41.1	41.0	40.3	41.7	41.5	41.0	41.3	40.8	40.9			
New Dwelling Unit Starts	(No.)	5,209	6,183	5,138	4,107	5,815	5,353	3,848	5,010	5,806	4,770	7,377	4,464	3,764	
Business Failures	(No.)	93	59	78	90	77	130	67	87	65	63	83	79	70	71
Business Failures - Liabilities	$ Million	6.9	3.1	2.1	3.4	10.3	8.9	4.0	5.3	4.6	4.0	20.7	9.5	2.6	3.4
New Orders in Manufacturing*	$ Million	2,689	2,721	2,780	2,684	2,793	2,870	2,827	2,834	2,829	2,849	2,909	2,822		
Housing Contracts	$ Million	54.4	70.8	62.5	67.9	48.1	57.9	67.3	53.7	70.9	76.2	59.1	44.3	56.6	68.9
Business, Industrial and Engineering Contracts	$ Million	86.1	83.1	117.9	113.5	80.3	143.9	109.3	117.9	135.9	127.8	115.0	155.7	98.1	87.6
Money Supply*(i)	$ Million	17,426	17,537	17,645	17,855	18,065	18,289	18,557	18,683	18,716	19,172	19,639	19,654	19,786	19,737
T.S.E. Index - 77 Stocks	1956=100	169.7	168.5	165.6	170.9	172.8	170.7	171.1	169.5	163.0	163.9	166.8	171.4	174.2	167.7
COINCIDENTAL AND LAGGING INDICATORS															
New Dwelling Unit Completions	(No.)	3,806	3,432	3,236	3,667	3,727	8,392	7,115	4,518	4,019	2,153	4,075	3,269	2,830	
Average Hourly Earnings in Manufacturing	$	2.14	2.14	2.15	2.19	2.20	2.23	2.23	2.22	2.23	2.23	2.23			
Gross National Product*	$ Million			48,016			49,908			50,880			52,056		
Cheques Cashed in Clearing Centres	$ Million	3,820	3,678	3,765	3,773	3,869	3,981	4,127	4,211	4,097	4,184	4,634	4,287		
Retail Trade	$ Million	630	625	624	617	631	641	659	672	665	672	669	667		
Labour Force	000's	2,561	2,564	2,565	2,614	2,590	2,598	2,597	2,603	2,635	2,634	2,641	2,600	2,586	2,616
Employed	000's	2,467	2,491	2,489	2,543	2,525	2,540	2,524	2,531	2,553	2,561	2,572	2,531	2,539	2,557
Unemployed	000's	94	73	76	71	65	58	73	72	82	73	69	69	47	59
Unemployed as % of Labour Force	%	3.7	2.8	3.0	2.7	2.5	2.2	2.8	2.8	3.1	2.8	2.6	2.7	1.8	2.3
Wages and Salaries	$ Million	798	806	808	825	823	843	849	854	861	868	874	885		
Industrial Employment	1949=100	133.6	136.1	136.8	137.9	138.2	139.3	139.8	140.1	140.5	140.7	140.9	142.3		
Total Industrial Production*	1949=100	215.1	220.9	221.1	224.3	223.1	226.7	225.5	225.4	225.9	228.5	232.0	233.4		
Total Manufacturing		189.1	194.5	194.4	197.2	195.9	199.4	198.2	200.3	200.2	203.1	204.8	205.4		
Non-Durables		187.1	191.0	192.7	191.4	189.8	188.9	189.3	193.2	190.9	194.6	195.7	196.8		
Durables		191.4	198.6	196.4	203.9	203.1	211.8	208.6	208.5	211.1	213.1	215.6	215.4		
Mining		326.7	341.2	338.1	348.3	343.3	347.5	348.7	332.7	336.9	339.3	350.7	353.2		
Electric Power & Gas Utilities		426.9	421.8	434.1	429.6	437.4	441.8	435.8	431.8	433.5	431.6	449.8	462.6		
Primary Energy Demand (Annual Rate)	BKWH	41.81	41.29	41.72	42.13	42.86	43.46	42.52	42.14	43.06	42.59	43.67	44.51	44.98	46.11
ECONOMIC INDICATORS NOT SEASONALLY ADJUSTED*															
Domestic Exports	$ Million	669.9	706.5	714.1	569.1	538.3	685.5	645.0	745.7	717.6	770.4	685.7	701.0		
Imports for Consumption	$ Million	636.8	673.2	656.1	559.6	551.1	730.0	698.4	737.1	795.1	732.4	659.4	734.9		
Foreign Exchange Reserves	US $ Million	2,687	2,743	2,674	2,668	2,649	2,554	2,567	2,499	2,480	2,492	2,598	2,614	2,644	2,681
Prices, Industrial Materials	1935-39=100	258.9	258.5	256.2	256.7	255.3	256.3	256.6	258.5	260.4	259.5	260.9	260.4	259.3	261.5

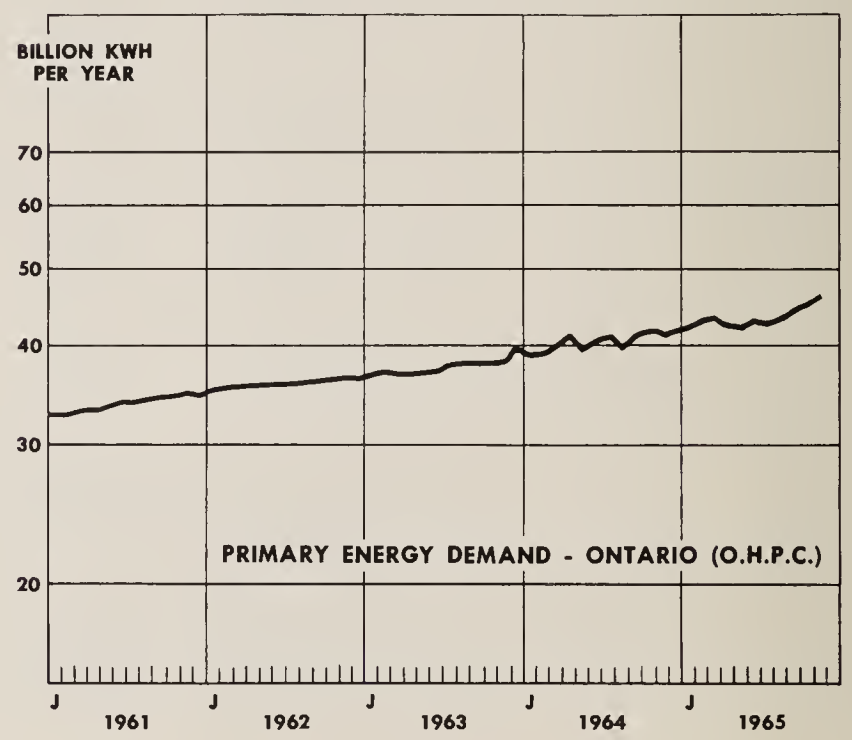
(i) Revised Series

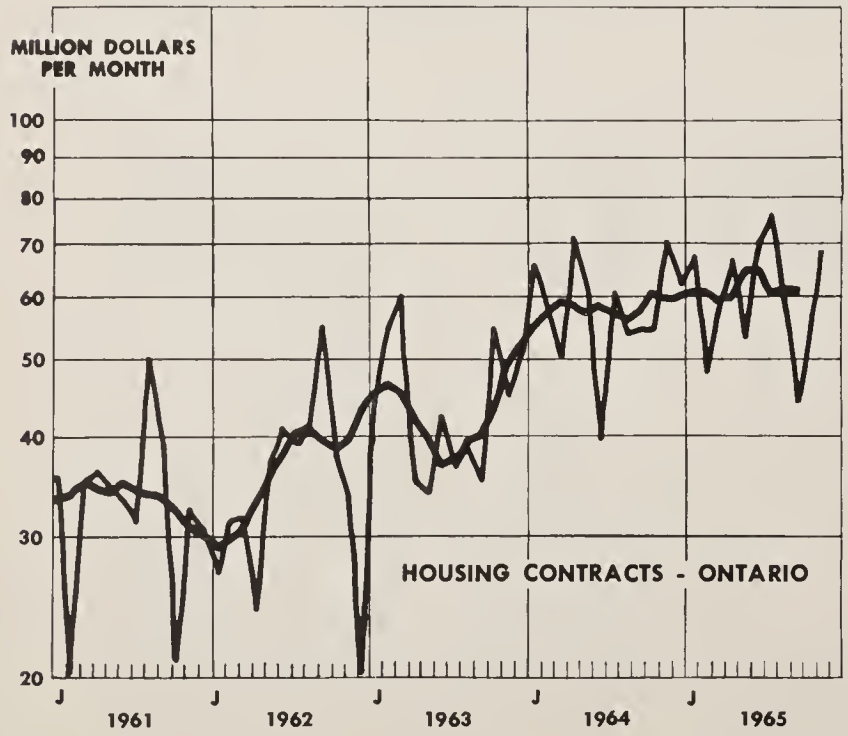
ECONOMIC INDICATORS — SEASONALLY ADJUSTED

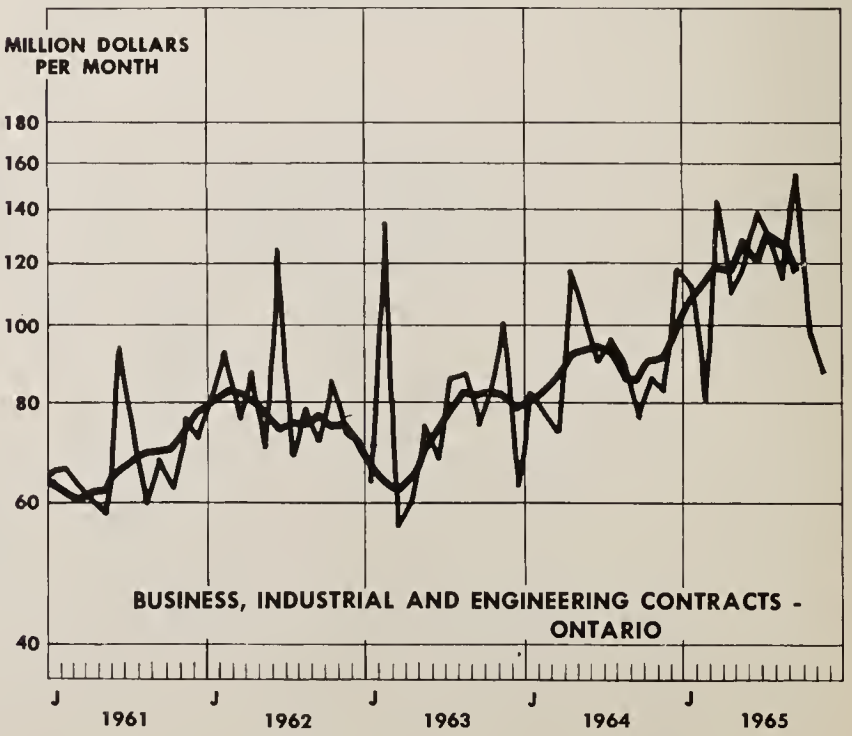




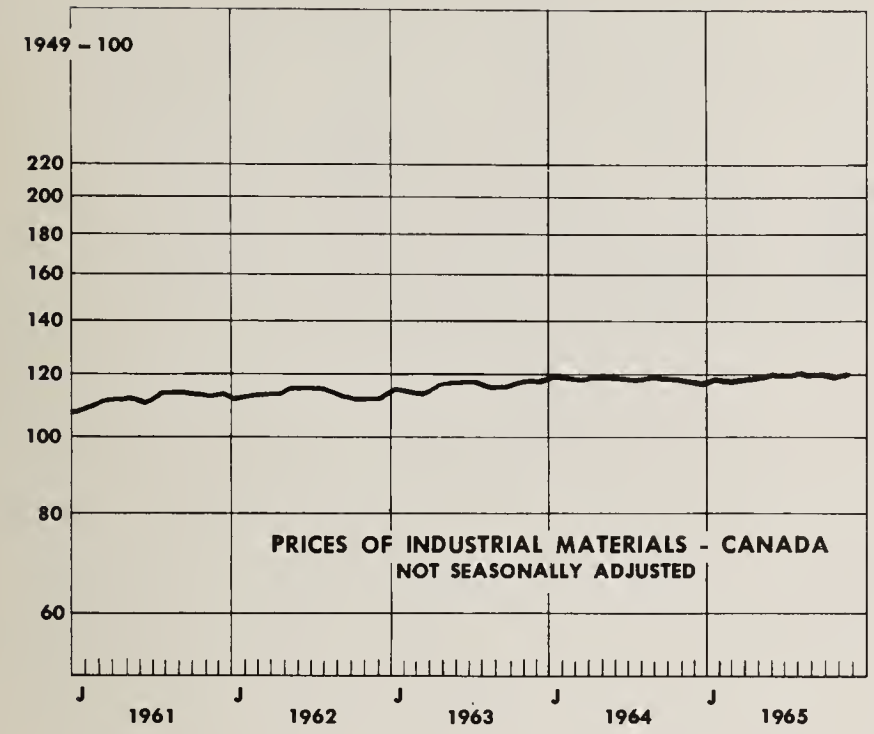


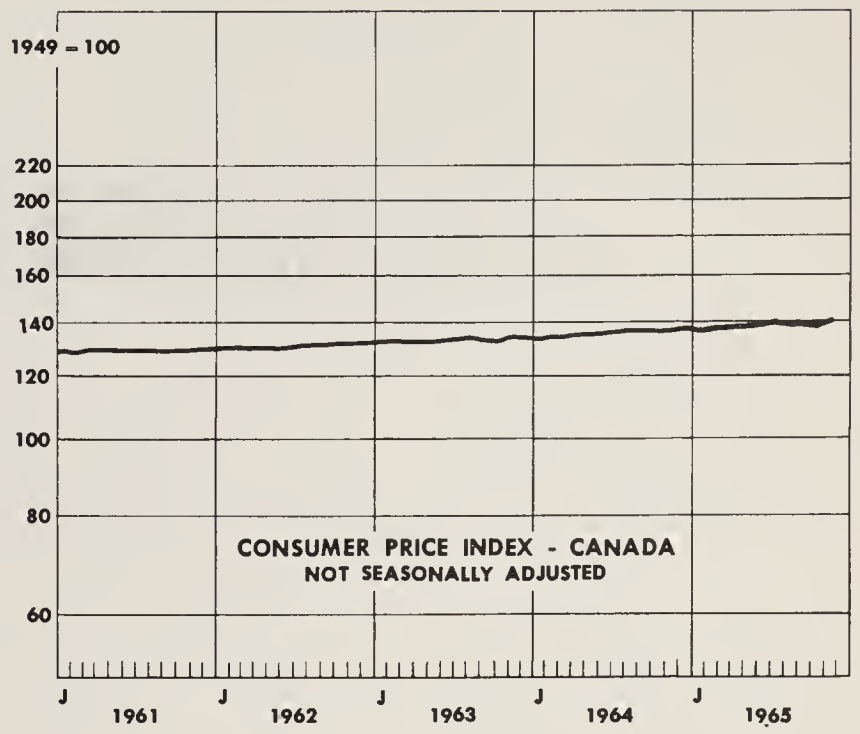


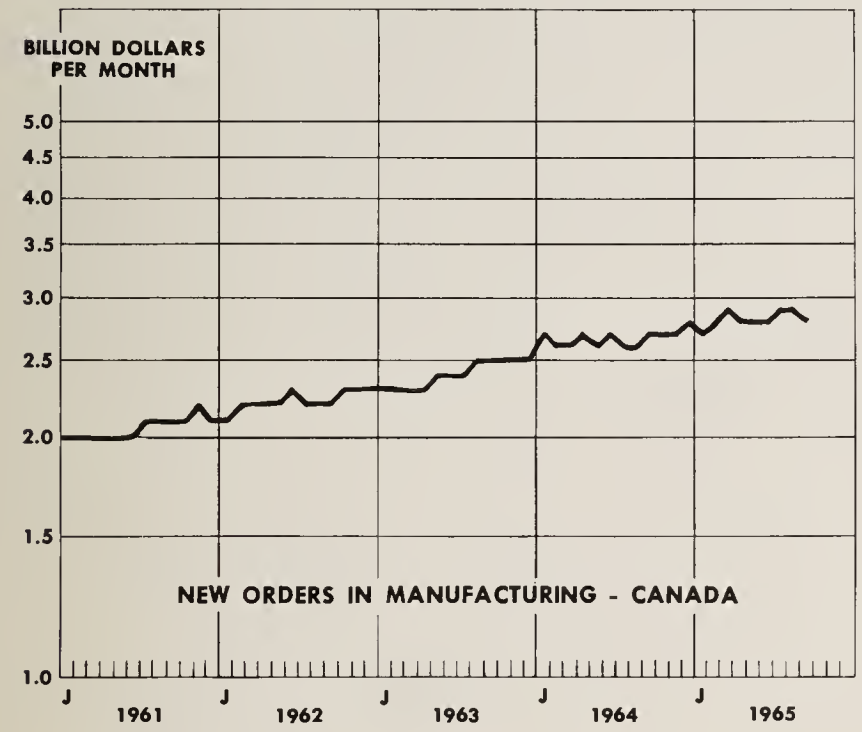


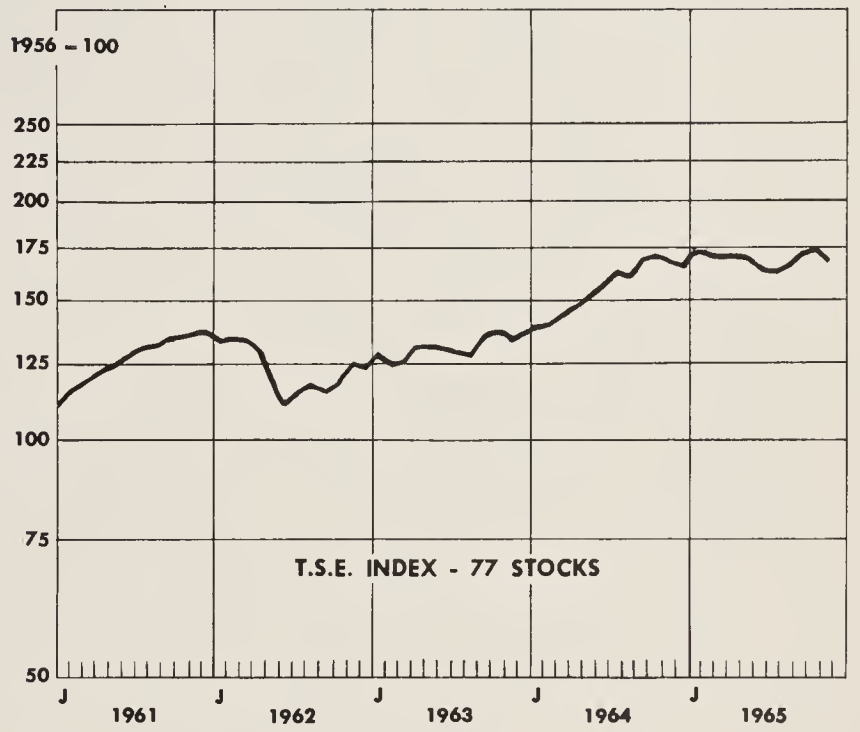


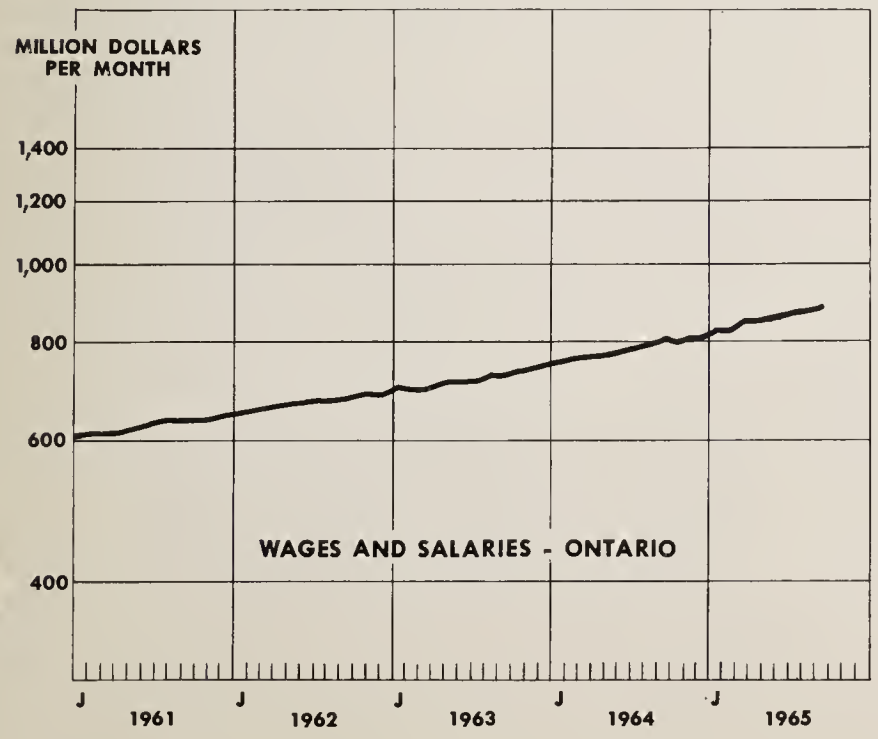
ECONOMIC INDICATORS – SEASONALLY ADJUSTED

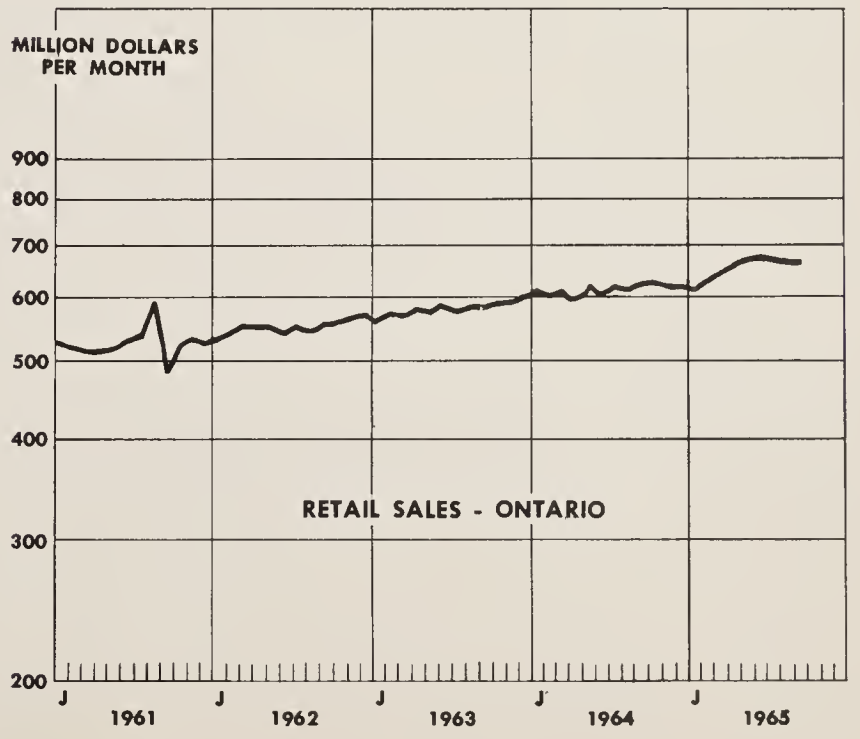












REFERENCE COPY